Porter & Co.

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# INVESTMENT CHRONICLES

## A MEMBER BENEFIT *from* PORTER & CO.

ISSUE #17 | AUGUST 2024

# PORTER & CO. INVESTMENT CHRONICLES

Welcome to *Porter & Co. Investment Chronicles*, our guide to the most important and interesting stories from the worlds of investing, finance, and economics that's available exclusively to Partners and Porter & Co. Select members.

Each month, my team and I share the most valuable insights we come across from the hundreds of sources we regularly read and review – hedge-fund letters, annual reports, Securities and Exchange Commission ("SEC") filings, investment newsletters, newspapers, X (Twitter) threads, conferences, podcasts, and more – and digest them into one carefully curated, easy-to-read resource.

With *Investment Chronicles*, you'll have your finger on the pulse of the markets without having to spend hours scouring the internet each day.

You can navigate each issue using the hyperlinked **Table of Contents** below. All content also includes links back to the original source when possible, so you can easily dig in for more details, to see a larger version of a chart or image, or to learn more about accessing paid content.

We hope you'll come to think of *Investment Chronicles* as a highlight of your subscription with Porter & Co. We think it is the most comprehensive expression of our goal as a business: to give you the information we'd most want if our roles were reversed.

Porter Stansberry
Stevenson, MD
August 2024

Note: Quotes, transcripts, and excerpts are generally reproduced as they appear in the original.





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# TABLE OF CONTENTS

| | |
|---|---|
| The Five | 3 |
| Economics and Markets | 8 |
| The Legends Speak | 51 |
| Investment Ideas | 65 |
| Sovereign/Government Bonds and Credit | 111 |
| Corporate Bonds and Credit | 118 |
| Consumer Credit | 123 |
| Real Estate | 133 |
| Special Situations | 146 |
| Precious Metals | 169 |
| Energy | 174 |
| Other Commodities | 180 |
| Bitcoin and Crypto | 184 |
| Notable Institutional Buying | 200 |
| Notable Insider Buying | 202 |



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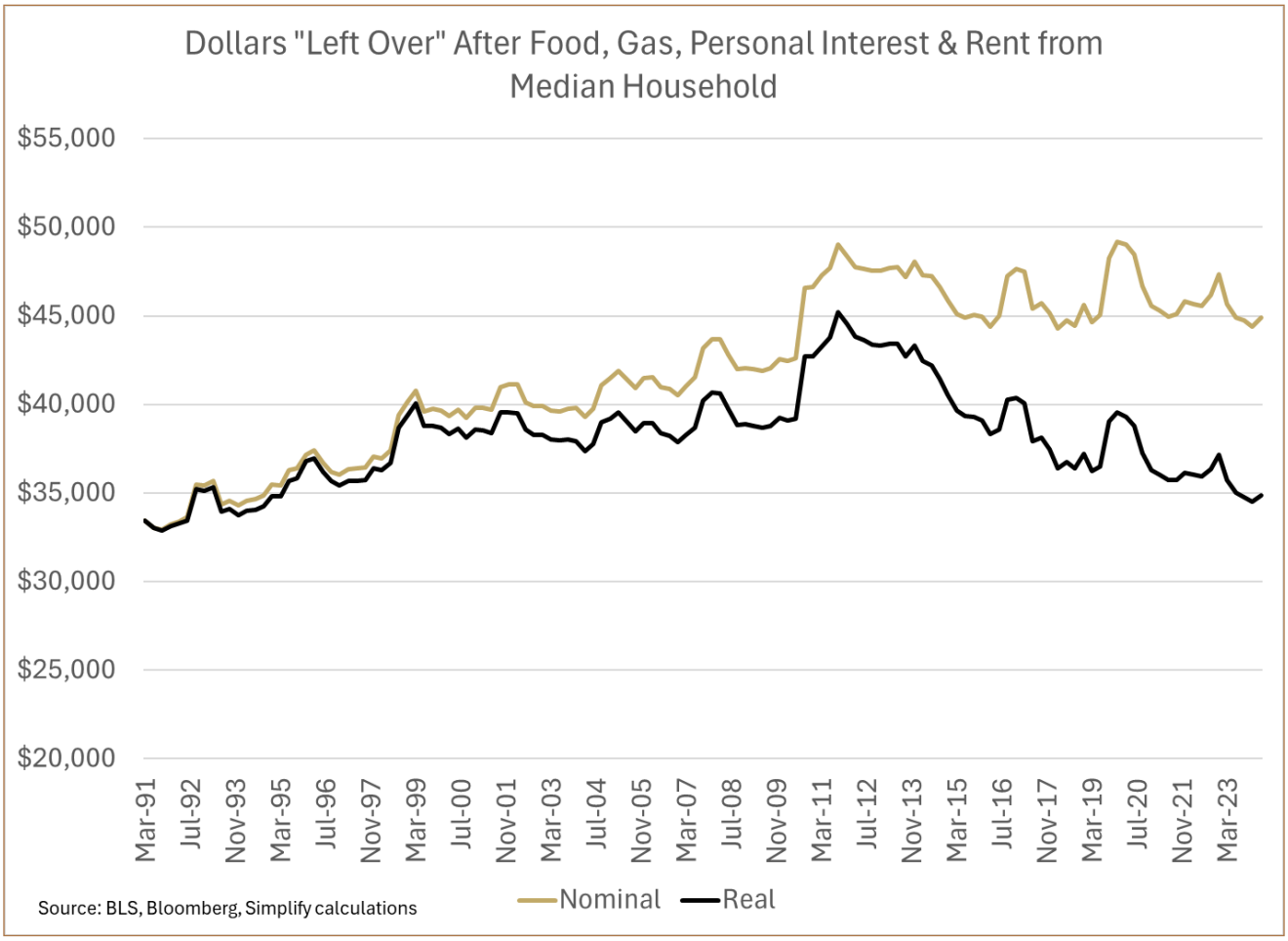
# THE FIVE

## The Most Important Charts We're Watching This Month

**This simple chart explains why so many Americans are struggling despite the supposedly strong economy (from Michael Green via X)...**





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**The Sahm Rule – which has correctly signaled the last nine U.S. recessions – was officially triggered this month when the unemployment rate rose to 4.3% (from bondvigilantes.com)...**

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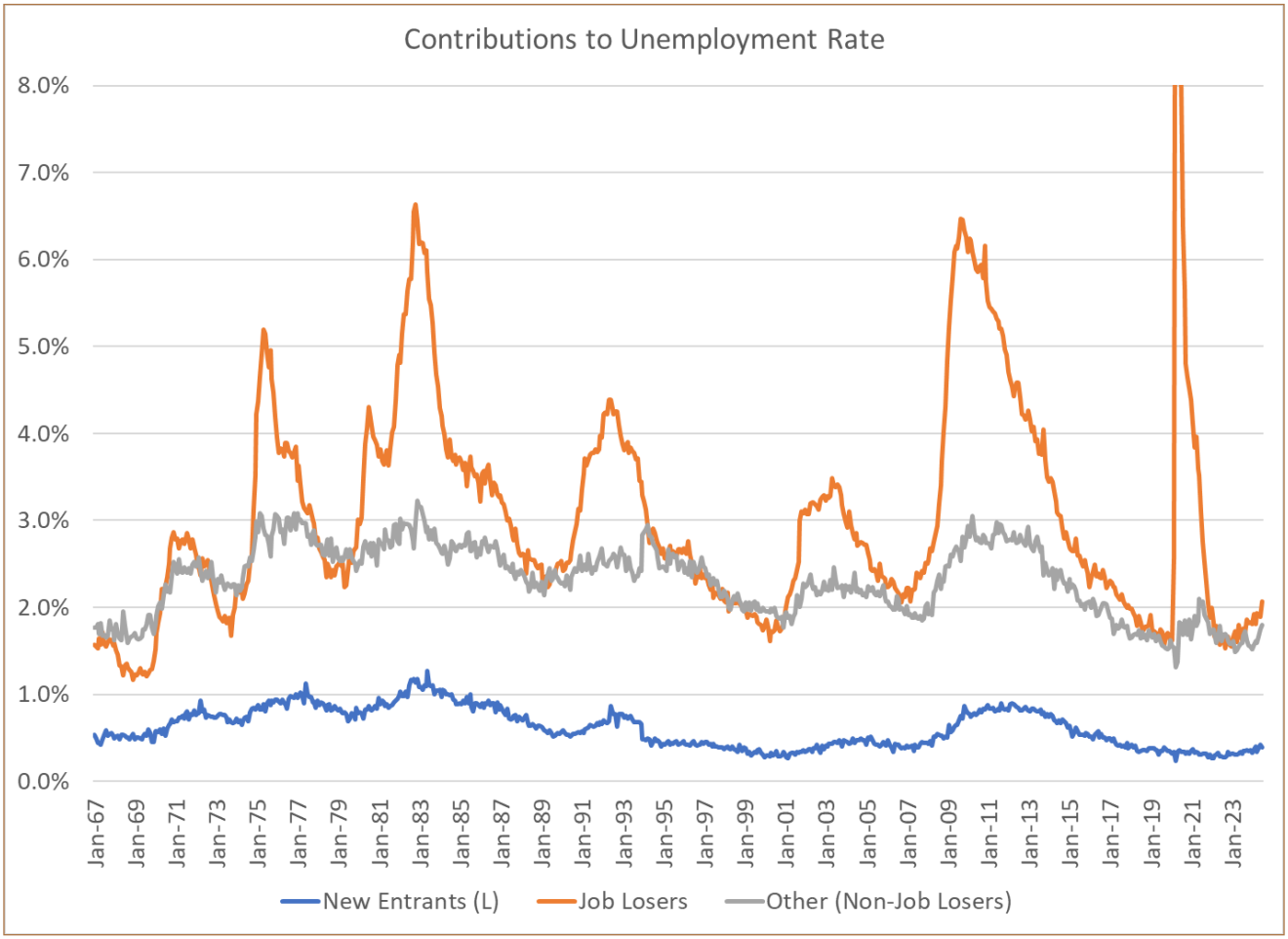
**Contrary to assertions that the Sahm Rule was prematurely triggered by a large number of new entrants in the job market, data shows it is primarily job losers (as usual) that are driving the unemployment rate higher (from Michael Green via X)...**





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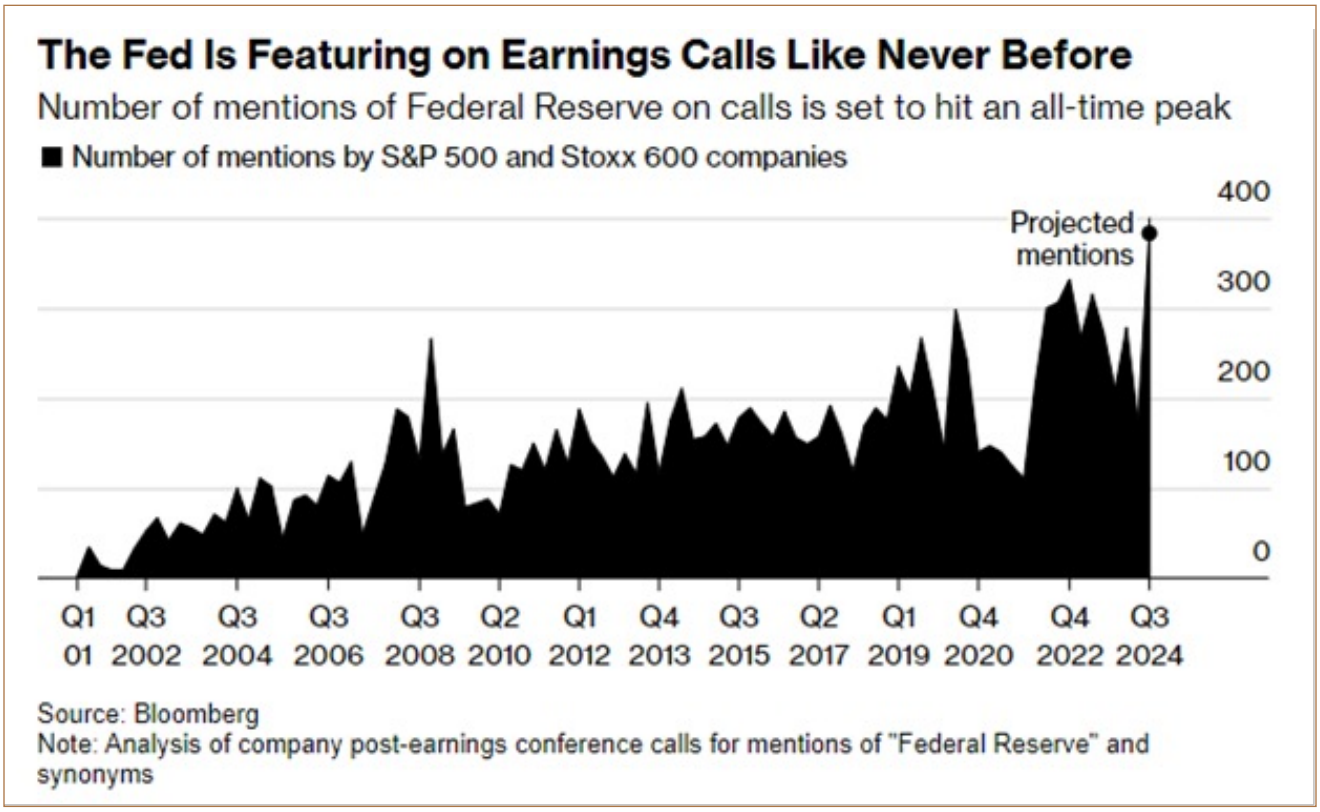
**It appears the Federal Reserve's historic tightening cycle of 2022-2023 is finally beginning to weigh on the economy (from Kantro via X)...**



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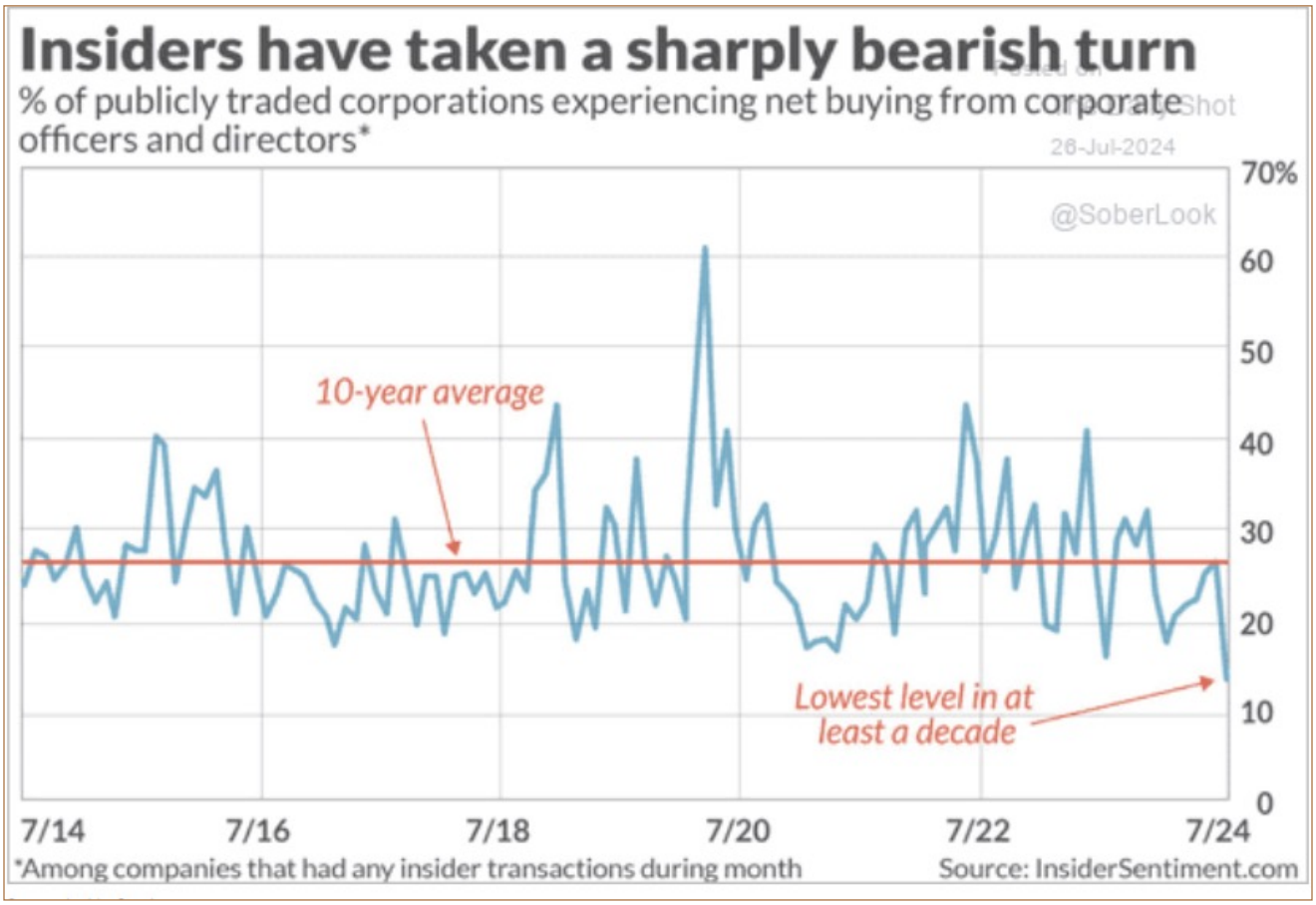
**Insider buying has fallen to its lowest level in a decade (from Bob Elliott via X)...**





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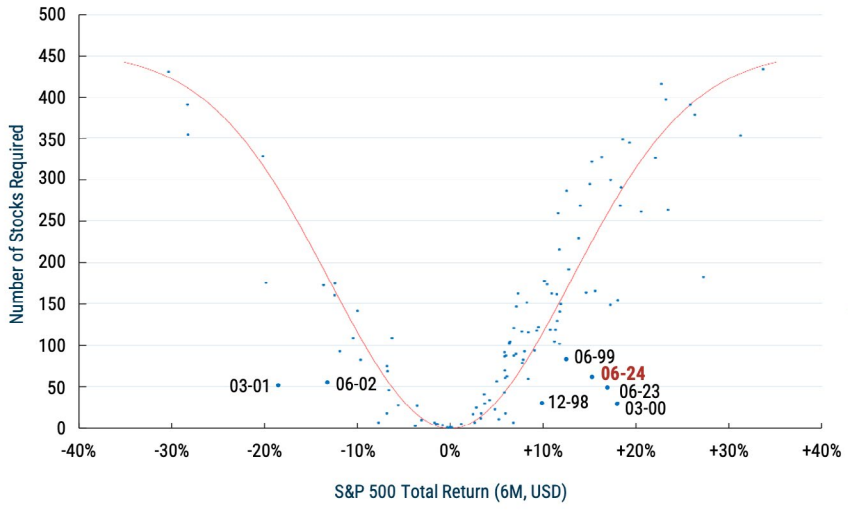
# ECONOMICS AND MARKETS

**The concentration of the recent market rally is ominously similar to the dot-com bubble (from GMO Focused Equity Insights)...**

Like you, we have read countless comparisons between today's enthusiasm for all things AI and the top of the TMT bubble in 2000, with the implication being that stocks are on thin ice. In terms of technical description, the parallels are accurate – the narrowness of the market, the elevated cross-sectional volatility, and the concentration of capitalization in a few issues all look similar to the 2000 top.

One way of looking at this is to count how many stocks it takes to explain the return of the S&P 500. Exhibit 1 shows how the number of stocks increases as the size of a six-month market move gets larger in both directions. It also shows that the narrow markets we have recently lived through are rather like those of early 2000 in magnitude and breadth: over the six months ending June 2024, just a few stocks accounted for all the S&P 500 return. Normally we might expect a return of this magnitude to be driven by hundreds of stocks.

EXHIBIT 1: HOW MANY STOCKS EXPLAIN THE WHOLE S&P 500 RETURN SINCE 1995?




Source: GMO | Data from 9/1995 through 6/2024



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We are wary of arguments of the form, "the last time technical event X was observed, Y followed, and we see X today, so Y is just around the corner." While these X-then-Y arguments can be useful prompts for vigilance – here, the investing equivalent of "don't run with scissors" – they are too limited in scope.

Investment returns ultimately come from earnings growth, dividends received, and change in the earnings multiple. Our approach could be summarized as taking care of fundamentals by focusing on quality while controlling valuation risk by seeking to avoid overreach on the earnings multiple. If we compare today's markets with the market top in 2000, we see less to fear today on both the fundamentals and the multiples.

In 2000, the top-10 stocks comprised five telecom companies, two networking beneficiaries, a software business, an oil company, and a holding company. At the June 2024 quarter end, we have five cloud tech businesses, two chip companies, a pharmaceuticals company, an oil company, and a holding company (Exhibit 2)

EXHIBIT 2: LARGEST COMPANIES GLOBALLY – NOW AND THEN

| *Now (6/30/2024)* | | | *Then (2/28/2000)* | | |
|---|---|---|---|---|---|
| COMPANY | MARKET CAP ($B) | P/E | COMPANY | MARKET CAP ($B) | P/E |
| Microsoft | 3,321 | 34 | Microsoft | 469 | 53 |
| Apple | 3,252 | 30 | Cisco | 455 | 109 |
| Nvidia | 3,089 | 41 | GE | 435 | 37 |
| Alphabet | 2,273 | 23 | Ntt Docomo | 386 | 136 |
| Amazon | 2,010 | 39 | Intel | 378 | 36 |
| Saudi Arabian Oil | 1,800 | 15 | Vodafone | 337 | 49 |
| Meta | 1,279 | 24 | Exxon Mobil | 261 | 24 |
| Berkshire Hathaway | 878 | 21 | Deutsche Telekom | 253 | 102 |
| Eli Lilly | 861 | 58 | Nokia | 242 | 66 |
| Taiwan Semi | 772 | 22 | NTT | 220 | 2,922 |

Source: GMO

In 2000, the price-to-earnings ratio of the top 10 was 60x. Market participants were intoxicated by the ongoing communication revolution and heady fundamental returns of 22% per annum (p.a.) for the group over the preceding five years. The valuation was simply too





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rich. Even if the fundamental return expectation of 19% p.a. had been delivered and stock prices held, the top 10's multiple would have still exceeded 25x by 2005. In reality the outcome was starkly different – the fundamental return was a relatively puny 8% p.a. for the group, with earnings falling at the telecom companies after what turned out to have been disastrous capital allocation in 3G spectrum auctions. Total returns were famously poor. Perhaps unsurprisingly, the stellar performer of the group – the only one to deliver a positive return – was the company the furthest from the TMT epicentre, Exxon.

2024's top 10 have delivered similarly impressive fundamental returns of 19% p.a. since 2019, but the set-up is rather different to 2000, with a median P/E of 27x. If today's top 10 were to deliver on 19% fundamental return expectations and prices were to stay the same this time around, the multiple would collapse to 12x by 2029. Implicitly, investors expect less from the mega-caps now than they did in 2000. In a real sense, the stakes are lower today.

A final "then and now" observation relates to the quality of the two top 10s. GMO's longstanding systematic quality metric that we use for idea screening was in active service in 2000 (as were the writers of this piece). Based on an assessment of the level and stability of profitability, alongside balance sheet strength, 2000's top 10 were barely better than the median business. By contrast, today's top 10 sits squarely in the high-quality camp, with the midpoint just shy of the 10th percentile globally. That fits well with our fundamental assessment of quality – most of the current crop have stronger barriers to entry, interesting optionality (e.g., in AI and digitalization), and a better record in capital allocation, too.

None of this is intended to be determinative and we are not making another "X-then-Y" case. We are pointing out that in an important way the stars have aligned differently this time around, even if the market is superficially similar from a technical perspective. In the short term, it's anyone's guess. But looking further out, whether today's mega-caps turn out to be great or less-than-great investments will be a result of the evolution of their fundamentals and the consequent impact on their valuation multiples. Unlike in 2000 when we held only a non-material weight in the top 10, we invest with confidence in a number of these companies today.



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**Activist hedge fund Elliott Management says Nvidia is in a "bubble" and artificial intelligence ("AI") is "overhyped" (from *The Financial Times*)...**

Hedge fund Elliott Management has told investors that Nvidia is in a "bubble", and the artificial intelligence technology driving the chipmaking giant's share price is "overhyped".

The Florida-based firm, which manages about $70bn in assets, said in a recent letter to clients seen by the Financial Times that the megacap technology stocks, particularly Nvidia, were in "bubble land".

It added that it was "sceptical" that Big Tech companies would keep buying the chipmaker's graphics processing units in such high volumes, and that AI is "overhyped with many applications not ready for prime time".

Many of AI's supposed uses are "never going to be cost-efficient, are never going to actually work right, will take up too much energy, or will prove to be untrustworthy", it said.

Elliott declined to comment.

The hedge fund's warning comes as chip stocks, which have enjoyed a huge rally driven by investor fervour over the potential of generative AI, tumble on concerns about whether big companies will continue to spend heavily on AI.

Intel shares fell 20 per cent following the US market close on Thursday after the chipmaker revealed plans to cut about 15,000 jobs.

Nvidia dominates the market for the powerful processors needed to build and deploy large AI systems such as the technology behind OpenAI's ChatGPT.

Companies including Microsoft, Meta and Amazon have been spending tens of billions of dollars to build out AI infrastructure in recent months, with much of that capital going to Nvidia. At the same time, many of its biggest clients are also developing their own rival chips.

**Continue reading here** *(subscription may be required)*





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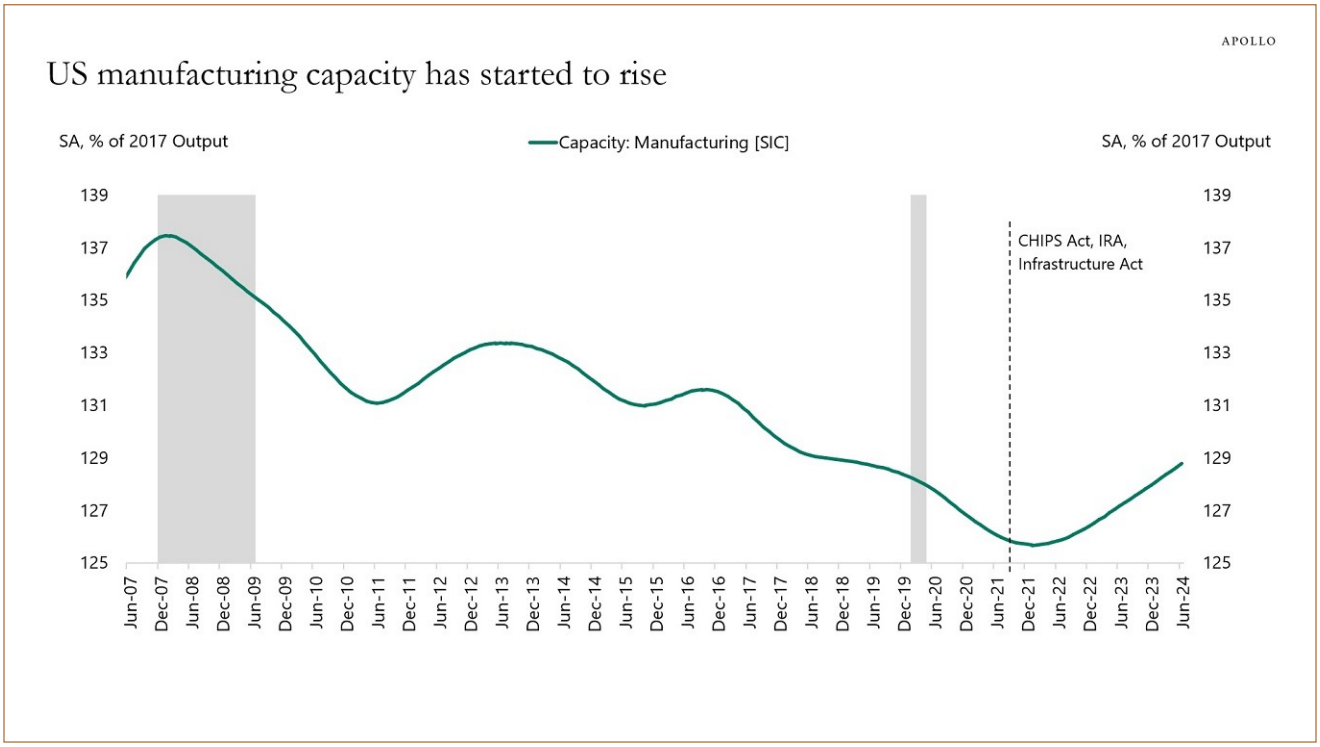
**A U.S. "industrial renaissance" could now be underway (from Torsten Sløk in The Daily Spark)...**

The CHIPS Act, the Inflation Reduction Act, and the Infrastructure Act have triggered a new industrial renaissance in AI and energy. Also, US manufacturing capacity is now growing after having declined for many decades, see chart below.



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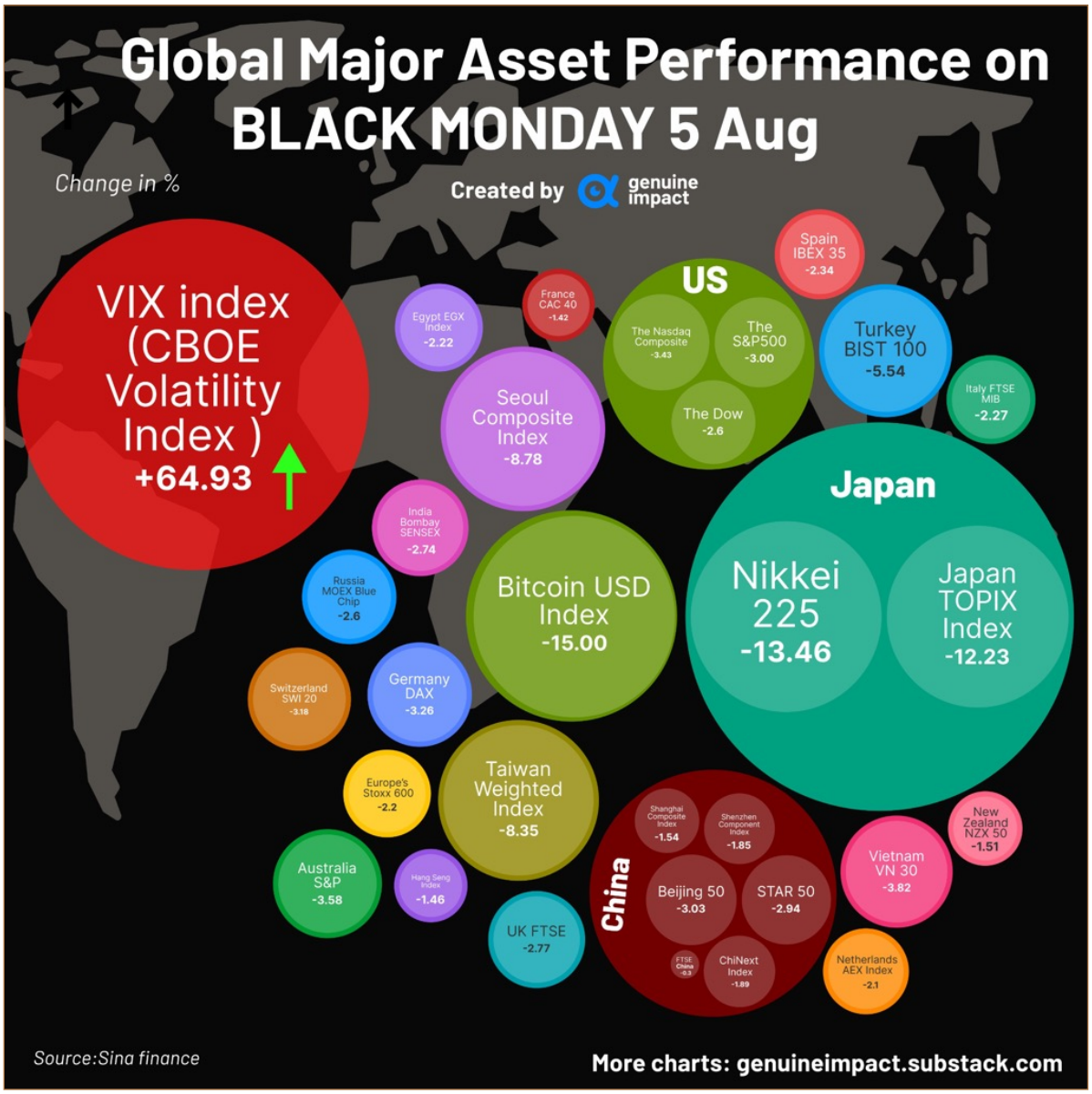
**This month's "Black Monday," summarized in one chart (from Genuine Impact via X)...**

Japan's stock market posted its worst drop since Wall Street's Black Monday in 1987, contributing to fears of global turmoil in the markets. Concerns about a slowing U.S. economy and the unwinding of the global yen "carry trade" are battering stocks.





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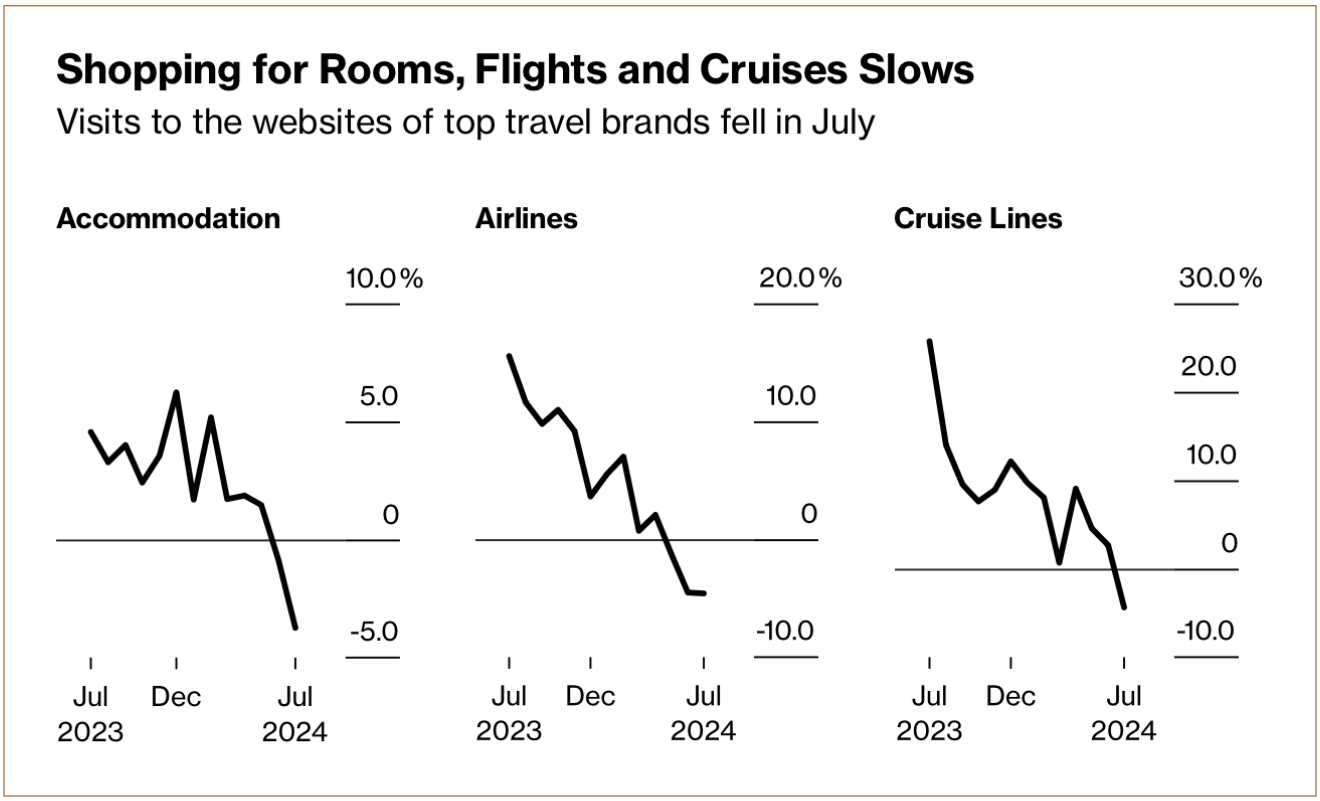
**Flights, hotels, and parks are all flashing travel warning signs (from *Bloomberg*)...**

The great post-pandemic boom in consumer travel is officially over.

With the US economy showing signs of slowing and the financial cushions many accumulated during the Covid-19 pandemic wearing thin, travelers are reining in their post-lockdown wanderlust and tightening their belts.

The pulse of travel matters as policy makers and markets look for answers to a big question: How long will consumers be able to keep spending? While household demand remains healthy, wages aren't rising as fast anymore and more consumers are struggling to pay off their high-interest credit-card balances.

"I think the post-pandemic travel behaviors are over, where people were taking longer trips," said Nicholas Jones, analyst at Citizens JMP Securities LLC. "The pent-up demand for travel has abated. We're shifting back to normal prepandemic travel patterns."



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Evidence of a slowdown is everywhere: Online lodging platform Airbnb Inc. plunged by a record after warning that growth in bookings is decelerating, even in the middle of the peak summer season. European discount carrier Ryanair Holdings Plc went from expecting a modest rise in air fares to warning they'll be "materially lower" because of thrifty consumers. And travel platform Expedia Group Inc. said Thursday that it's revising down its annual outlook for a second time this year.

**Continue reading here** *(subscription may be required)*





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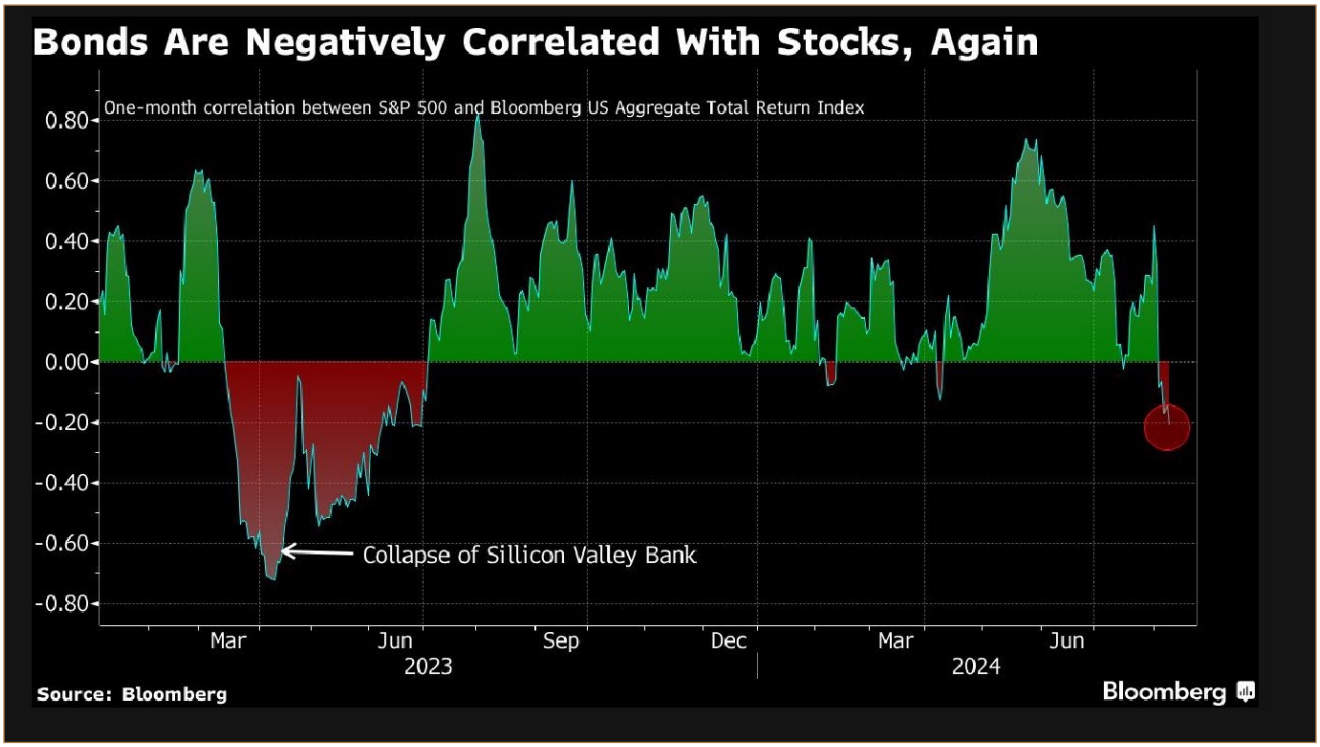
**Bonds and equities are negatively correlated again (from Alessio Urban via X)...**



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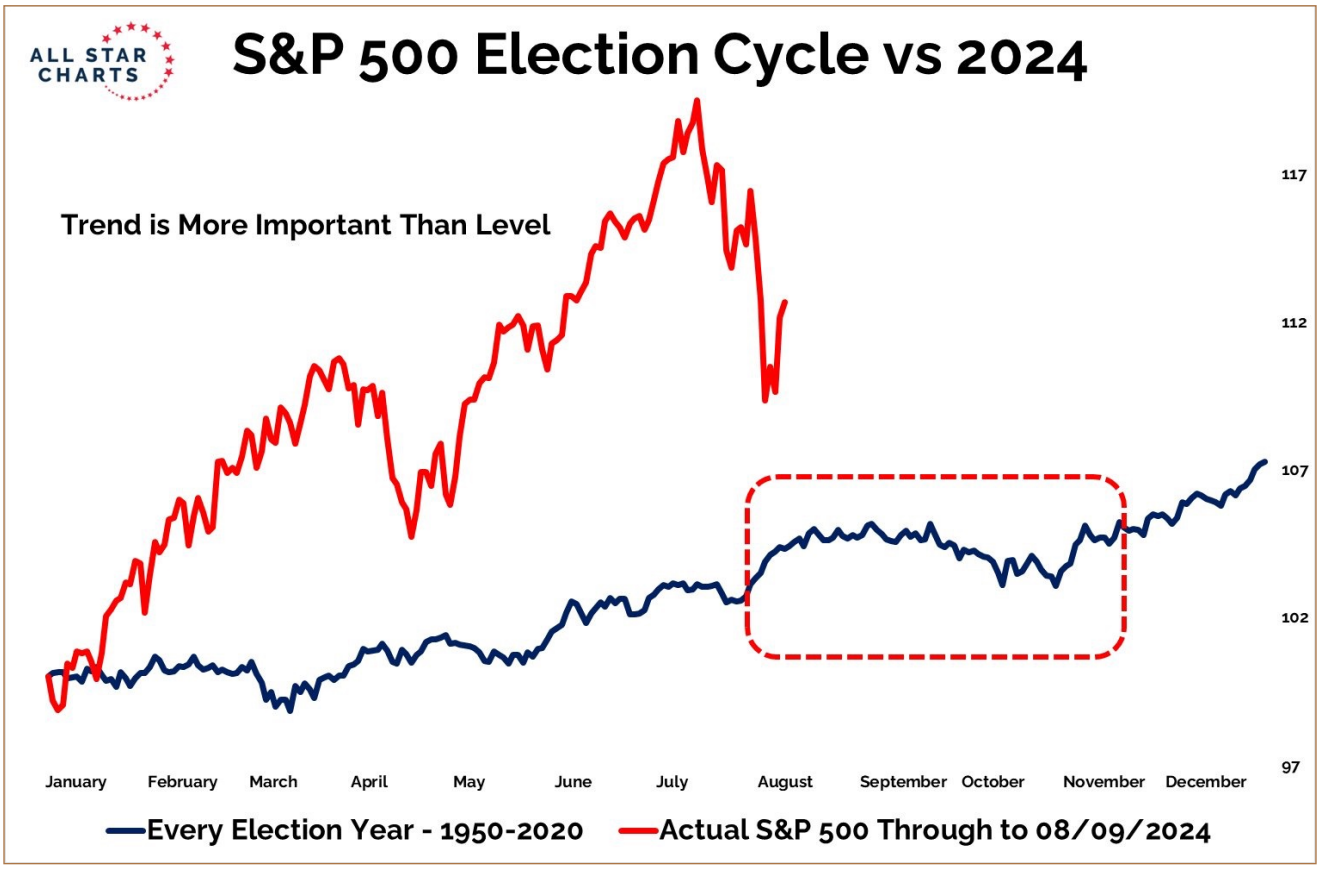
**History suggests the market is likely to struggle ahead of the November election (from Grant Hawkridge via X)...**

On average with the 4-year cycle... the next few months are sideways at best...





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**Details on the "ticking yen time bomb" that derailed markets this month (from The Informationist)...**

If you were paying attention to markets this past week, watching the panicky carnage and ensuing enthusiasm and recovery, you likely heard a new term to explain the reason behind the market activity.

A nifty little term that sounds like a sentence with no verbs or a name with no vowels.

*The Japanese Yen Carry Trade*.

The *what*?

Exactly. Along with the term have come plenty of either convoluted and confusing explanations or one so simple that it sounds made up:

*Borrow yen, buy everything else*.

Which actually isn't really wrong. But it's also incomplete.

But if this term and these explanations have your head spinning, don't worry. Because we are going unpack this sneaky and *oh so dangerous* trade and its implications here today, *nice and easy as always*.

So, grab your favorite cup of coffee and settle into a nice comfortable seat, as we foray into the world of foreign exchange with *The Informationist*.

---

**What is the 'Carry Trade'?**

First things first. We're going to get geeky here, but not too geeky. I promise.

But to understand the big picture and reasoning behind the current market gyrations, we have to unpack a significant factor in the recent market moves.

*The Carry Trade*.

Some of you have likely heard me describe and explain this before, but we will review it here one more time.



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The essence of a *cross-border currency carry trade* is when one country's interest rates (borrowing costs) are lower than another country's, it produces an *inefficiency* that can be taken advantage of.

An *arbitrage*.

Here's how: Let's say Country A has low interest rates and Country B has *high* interest rates.

I can borrow money (Currency A) in Country A and then exchange it for Currency B and invest it at a higher interest rate in Country B.

Read that again until you get it.

This creates what is called *Interest Rate Parity*, and I wrote all about it a while ago. If you want a deeper dive or a full refresher, you can find that here:

**The Bank of Japan Experiment**
OCTOBER 29, 2023

In short, what then happens is that the currency of Country A begins to *depreciate* versus Country B's currency and this follows the difference in the yields of each country's bonds extremely closely.

This is exactly what we've been witnessing in the Japanese yen versus the US dollar and the Japanese 10yr government bond yield (yielding zero or close to it) versus the US Treasury 10yr Bond yield (yielding up to 5% recently).

So the trade, as of late, was:

*sell short 10yr Japanese Government Bonds (i.e., borrow yen) → convert that yen to US dollar (sell yen and buy dollars) → buy US 10yr Treasury (invest in higher interest rate) → collect profit*

You can see the relationship in the graph below.

**Blue Line = Yen per US dollar**
**White Line = Spread between US 10yr yield and JGB 10yr yield**





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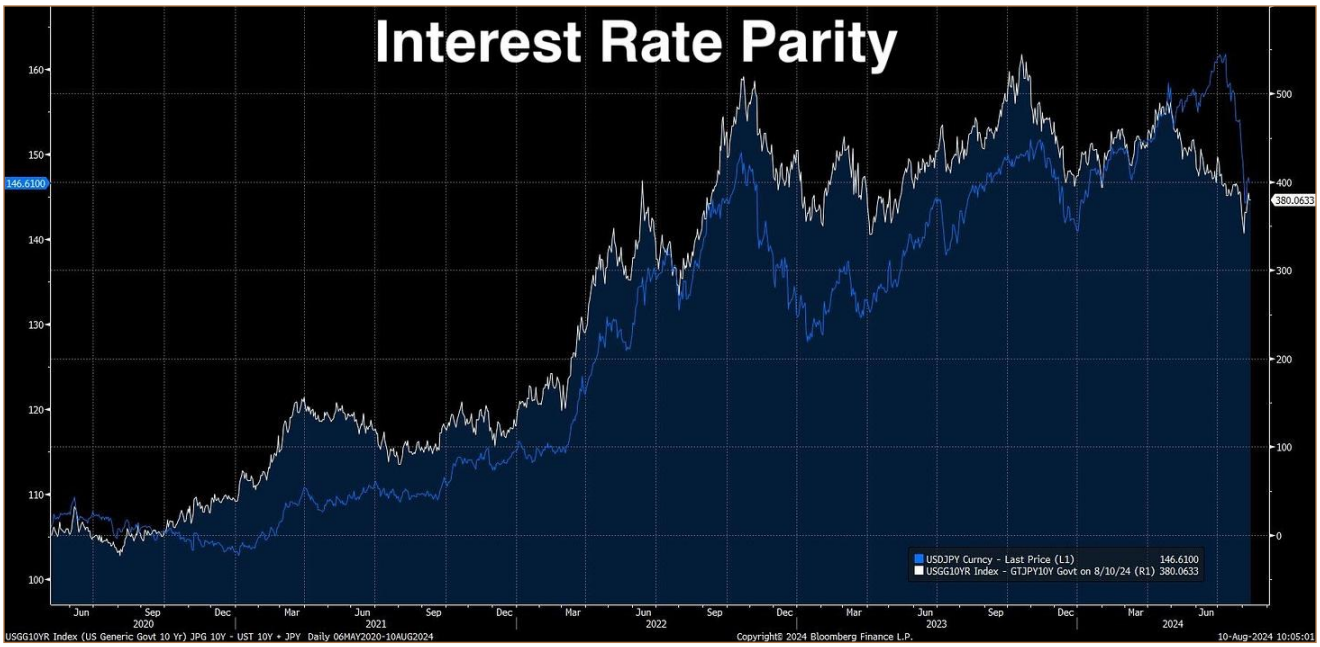


Look at how closely the lines follow each other. This is a natural market dynamic from the arbitrage between the currencies and interest rates.

But this is not the only trade they are doing, and it's not just the US dollar and bonds investors are buying.

See, this is happening all over the world, where there are higher interest rates than in Japan.

Which is pretty much everywhere, as the Bank of Japan has been looking to set a record for extreme monetary manipulation these past few years.

*This is not an easy record to win, mind you. Central bankers across the world have become monetary manipulation maniacs.*

In any case.

This trade is also happening with risk assets, where the investor does the trade to buy Treasuries and then uses those as margin to borrow against and buy stocks or other risk assets instead.

And since the US Treasury is considered the premier asset of the world, they can borrow *massively* against them.



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*Lever it all up, baby*.

Which they clearly did.

And/or they just borrowed cash through yen and straight up bought stocks or other risk assets on the bet that they could pay back the yen before the trades went against them or became unprofitable.

Who is doing the trade?

As far as who is doing all this, they could be investors from anywhere around the world. But primarily Japanese investors seeking to find profits somewhere, anywhere, and *US and offshore hedge funds*.

These are the leveraged culprits.

The next question is: *just how much of this trade is being done?*

---

**How Big is the Carry Trade?**

We have seen some wild estimates that put the total global exposure to the yen carry trade in the trillions of dollars.

... Deutsche Bank has put the amount at over *$20 trillion*.

*Whoa*.

Deutsche Bank analyzed the Bank of Japan's balance sheet and stated:

> *"at a gross balance sheet value of around 500% GDP or $20 trillion, the Japanese government's balance sheet is, simply put, one giant carry trade."*





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Figure 1: Japanese Government Consolidated Balance Sheet, % GDP

| Assets | | Liabilities | |
|---|---|---|---|
| Currency | 19% | Currency | 23% |
| Domestic Loans | 73% | Bank Reserves | 102% |
| Domestic Securities | 14% | Bonds & T-bills | 144% |
| Domestic Equities | 33% | Loans | 38% |
| Foreign Securities | 54% | Deposits FILF | 5% |
| Total | 194% | Total | 311% |

**Net balance sheet: -117%**
**Gross size of balance sheet: 505%**

*Source : Deutsche Bank, Federal Reserve Bank of St Louis WP 2023-028B*

Because Japan's GDP is approximately $4.2 trillion, this gives us the $20 trillion that Deutsche Bank is estimating.

*$4.2T x 5.05 = $21.2T*

But this assumes that the entire BoJ balance sheet is essentially one giant carry trade.

I personally think this is blown ***way out of proportion*** and the *actual* market impacting carry trade is a mere fraction of this.

My friend Lyn Alden (**@LynAldenContact**) pointed me to this chart that shows the cross border yen borrowing.



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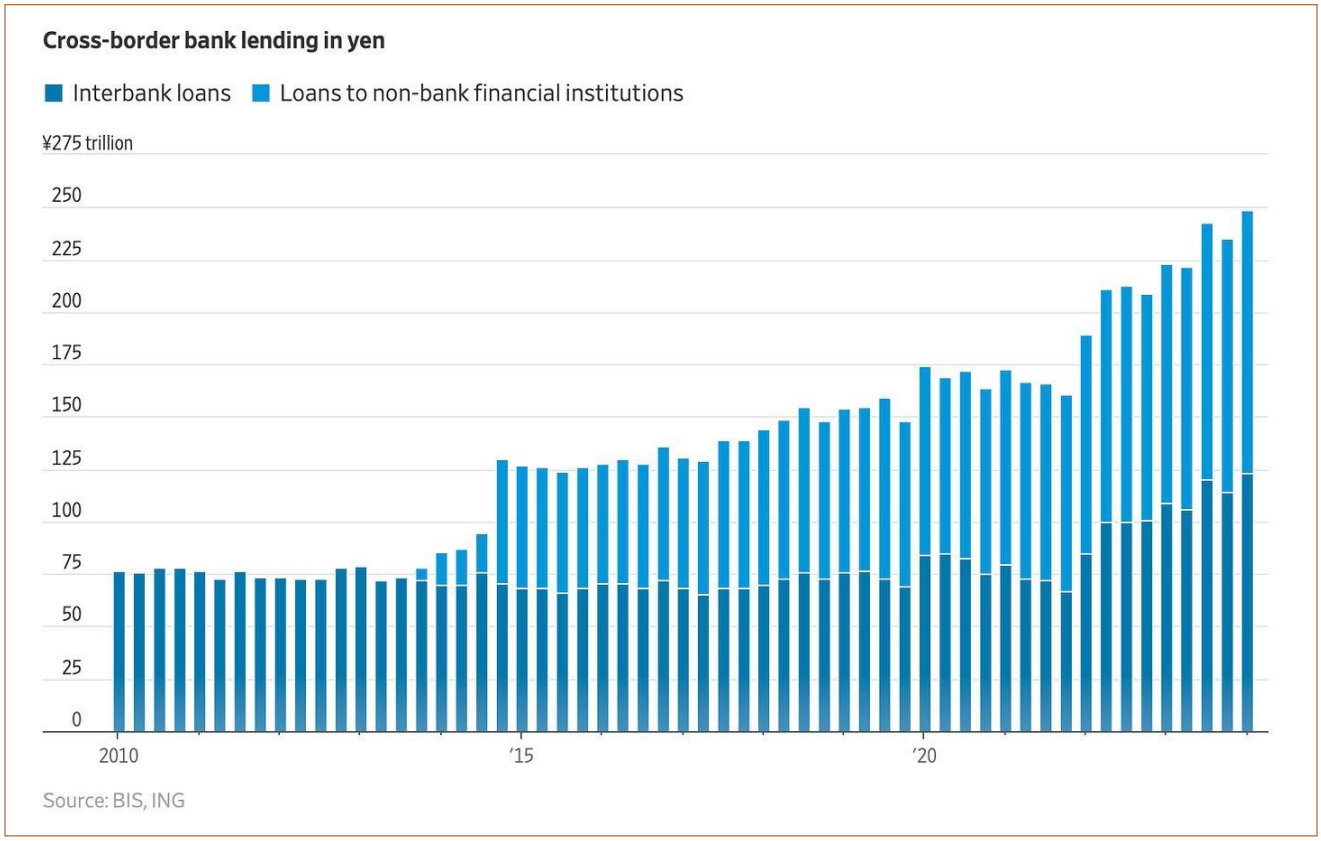


When we convert this to USD, it totals closer to $1.7 trillion. Add 2 to 3X leverage and we get to $3 to 5 trillion in total for the yen carry trade.

Still. What is scary about that is the amount of market turbulence that was seemingly triggered by this trade, even if it was far smaller than Deutsche's $20T estimate.

On that. What exactly *did* happen, anyway?

---

**What Happened [This Month]?**

To start off, the Nasdaq 100 Index (the embodiment of risk assets) peaked in early July, and has been gravitating lower ever since.

In other words, investors had already begun rotating out of risk assets, selling them for cash (short term Treasuries and T-Bills) and other less volatile assets like gold.





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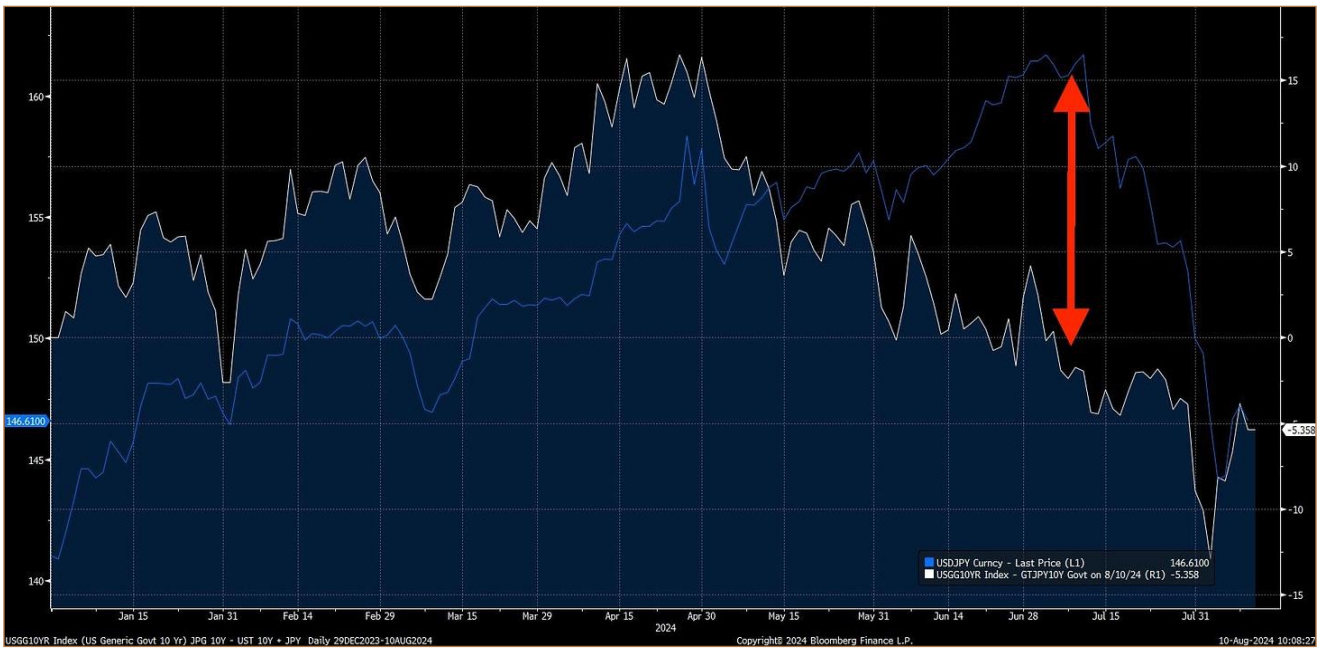
Remember, the US stock market is the largest market for risk assets in the world.

During this time, the normal parity of yen to Treasury spread (remember the chart up above?) had begun to widen. This is because the yen was basically in *free fall*.

Like so:




I’ve talked about this recently on various podcasts, pointing out that the BoJ would have to do something to intervene, by either buying yen (they would do this by selling some of the $1T+ US Treasuries the own and in turn selling USDs) or borrowing USDs on swap from the Fed and buying yen with those.

They were in essence playing a game of chicken with the Fed, hoping the Fed would soon lower rates and the yen would then stabilize against the dollar.

Any way you cut it, this divergence would have to close soon.

And that it did.

To start it all off, the BoJ raised rates for the first time since 2007. From .1% to .25%.



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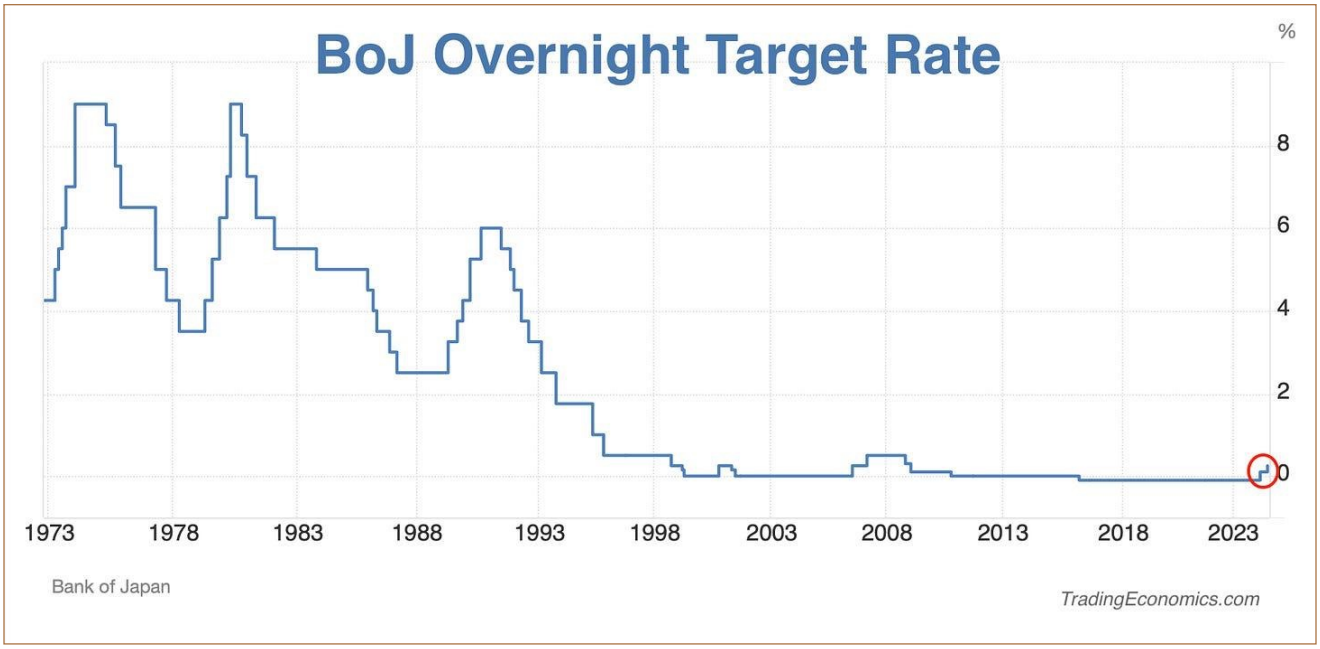
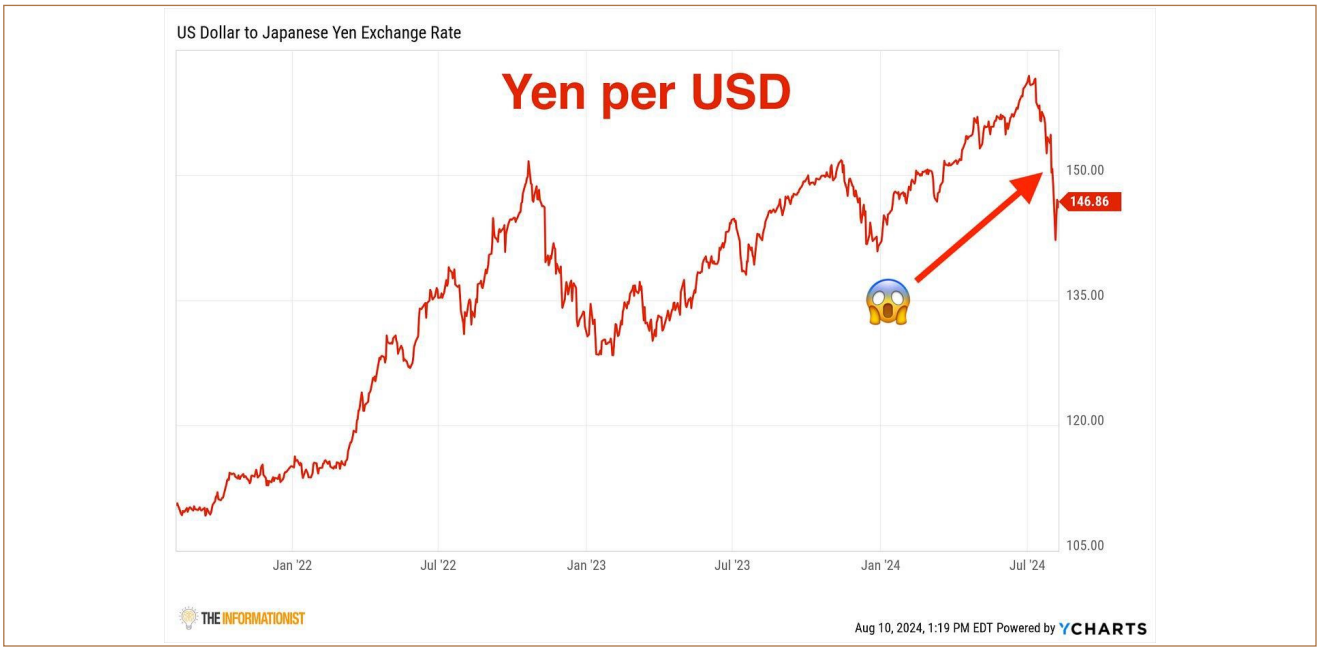



See that tiny little hike? Seems innocuous, doesn't it? *No big deal, right?*

But then yen's response was to *immediately* strengthen.





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And Japanese markets sold off in response, with the Nikkei 225 Index down over 7% in two days, following the yen move closely.

Then, the US released unemployment data that put investors on edge, wondering if the US had just slipped into recession, leading them to sell US equities.

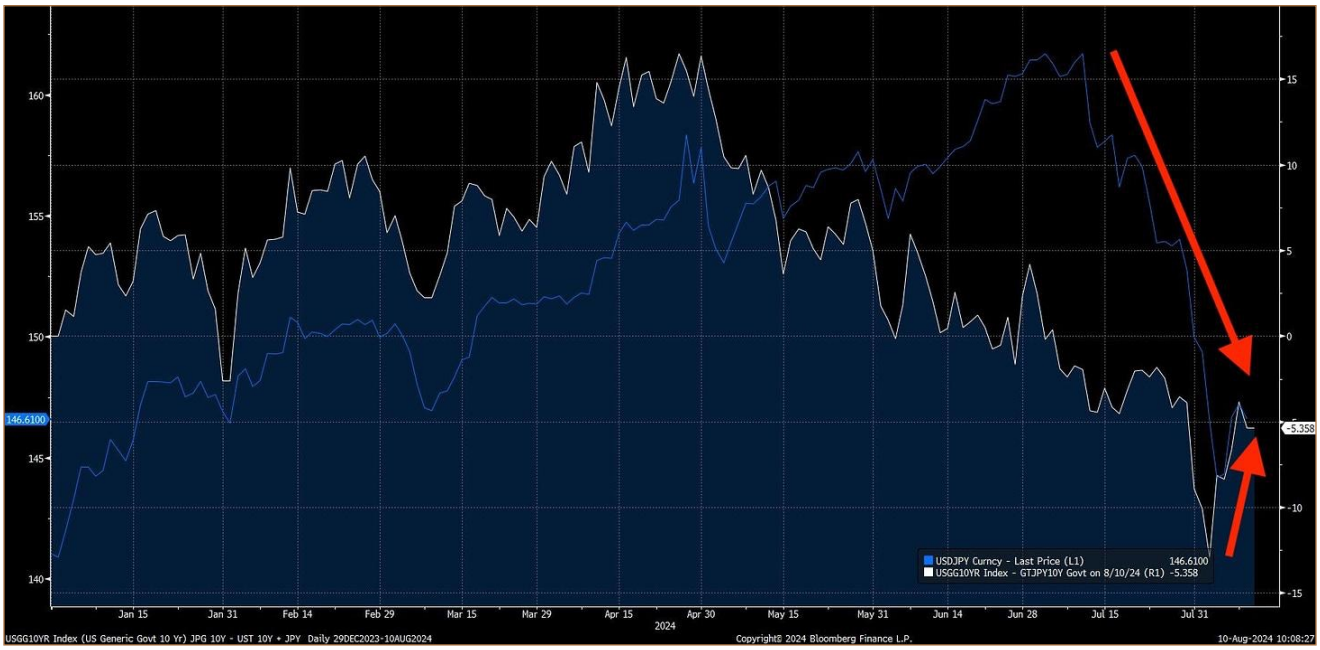
Leading them to unwind some of this carry trade and only making the yen stronger and pushing other carry traders to have to unwind some of *their* positions.

Then on Monday morning, August 5th, after a whole weekend of contemplation and Bitcoin selling off in anticipation, the markets in Japan crash, down 12%. The yen rockets higher, the carry trade unwinding.

The US markets follow, with the Nasdaq crashing 6% in minutes.

A flight to safety ensues, pushing US 10yr yields lower, only exacerbating the situation, making the carry trade less attractive and triggering unwinds and likely margin calls.

The alligator jaws of the yen vs interest rate spread closes fast.




And it all becomes a ***giant feedback loop***.



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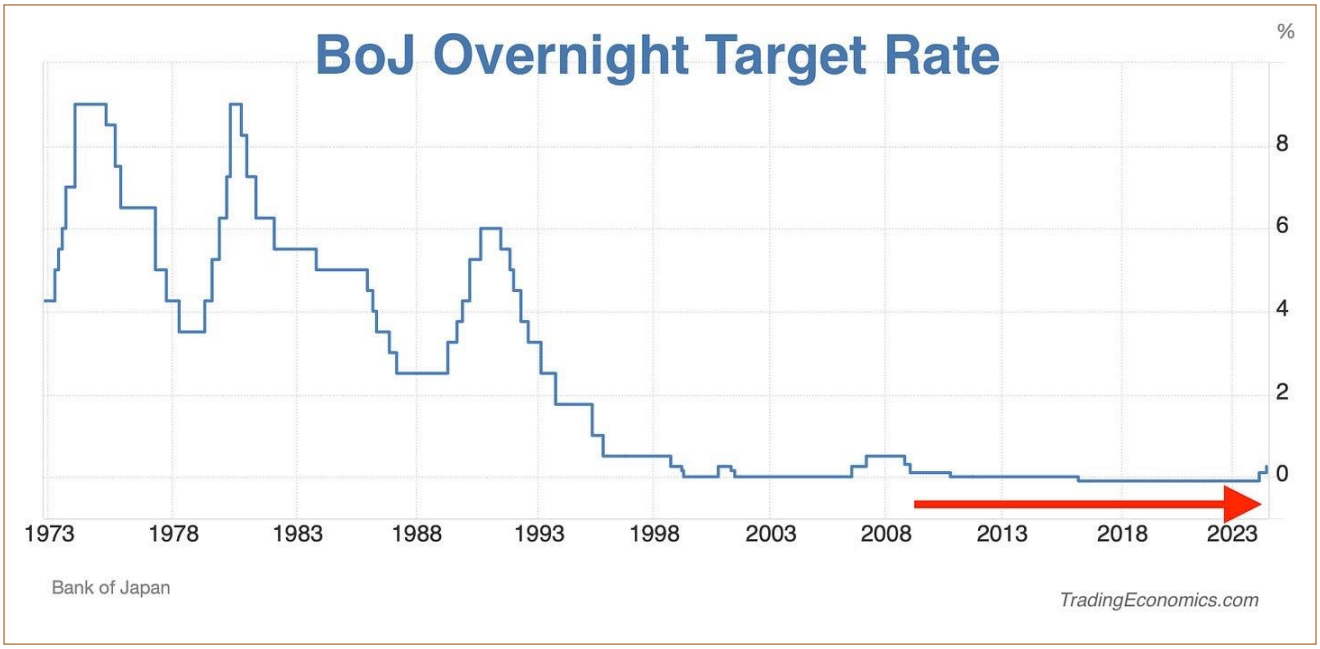
Yen strengthens (primarily driven by yen bought into strength on short covering), risk assets are sold around the globe, investors use proceeds to buy US Treasuries and those yields fall, the fall in yields weakens the US dollar, the yen strengthens, and the cycle repeats.

And it was not exactly because of the .15% hike in BoJ benchmark rates.

In truth, it was because of relentless market manipulation by the BoJ which allowed the world to *borrow money for free for over a decade*.




And that era was just declared over by the BoJ, triggering a near panic for investors and hedge funds who have been playing the free money for risk assets game on leverage all this time.

And the markets crashed in response.

But the markets have since recovered, so is it over now?

---

**What Next?**

JP Morgan has declared that carry trade is 50% closed out, and the Chief Strategist of LPL Financial estimates that the trades is 75% finished.





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That said, Bloomberg notes that when we had a similar move in the yen with a carry trade, after the 1998 Long Term Capital Management meltdown and 2007 Great Financial Crisis, it took 100 to 200 trading days to normalize again.

But after the Nikkei and US markets crashed, we had a remarkable response from the BoJ who declared: *"[T]he bank will not raise its policy interest rate when financial and capital markets are unstable."*

And there you have it. A single 15bps move caused a cascade of risk asset selling that piled up to $6.4 trillion of losses and the BoJ *immediately* did an about face.

This, my friends, is evidence of just how leveraged global markets are today, and how hesitant central bankers are to upset the balance.

Nobody wants to tip the markets into a meltdown and cause a global economic crisis.



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And so, I would not expect a move in rates by the BoJ for a while now.

But that does not mean this chapter is closed and the issue is resolved.

There's likely still trillions of leveraged dollars piled into the carry trade, and, as the saying goes, it may take a while for that goat to make its way through the boa.

And if the US markets tip into hard recession before the Fed acts?

We may see round two of the *Carry Trade* meltdown.





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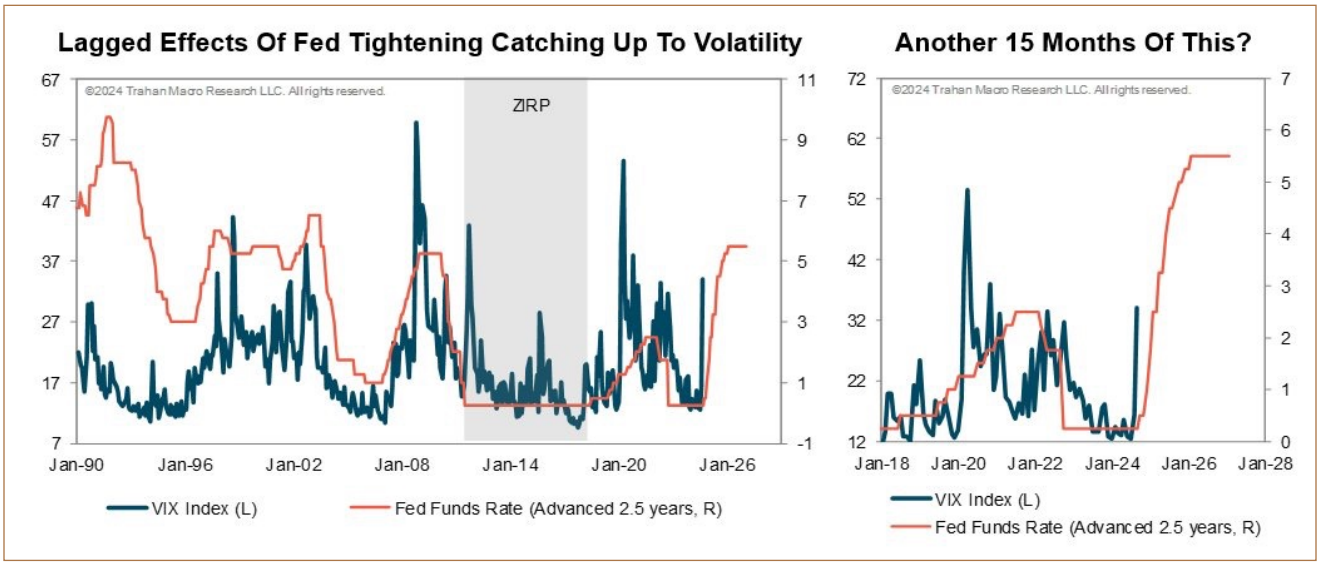
**Why this month's increase in volatility may not be an isolated event (from Francois Trahan via X)...**

For those wondering if the last two weeks were random ... not likely. Volatility usually starts to pick about 2.5 years after the beginning of Fed tightening. It's not a perfect relationship, but if it was, we would be staring at higher volatility into the second half of 2025.



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**A discussion of how war in the Middle East and domestic stagflation are tracking the 1970s (from Myrmikan Research)...**

**A Stagflation and War: The 1970s Redux**

The world is mostly a mosaic of former empires, Europe being an exception. European imperial ambitions, whether by Charlemagne, or Napoleon, even Hitler, now the EU, constrained themselves to reconstituting the supremacy that was Rome's or conquering primitive lands such as in the Americas or Africa. Political dominance shifted but not as much peoples or culture (the fringes were impacted by the expanding and contracting Russian and Ottoman empires). Chinese empires similarly comprised like geographies through the dynastic cycle.

Less familiar to Western audiences are the successive empires that have dominated the Near East, especially Canaan, which today encompasses Israel, the West Bank and Gaza, Jordan, and the southern portions of Syria and Lebanon. The Akkadian Empire subjugated Canaan as early as 2000 bc, the Egyptians took their place from 1500–1069 bc, the Israelites then established self-rule, but soon the Assyrians took over, then the Babylonians, followed by the Persians, then the Greeks under Alexander the Great and his successor the Seleucid Empire, then the Israelites reasserted independence, but were soon conquered by the Roman Empire, which was succeeded by the Byzantine Empire, which succumbed to the Arab invasion, which brought about the Ottoman Empire, which was succeeded briefly by the British Empire, which handed the territory to modern Zionists to establish the current Israeli state.

Unlike the histories of Europe or China, where culture was largely unchanged as the ambitious fought for political control, the Near East in general and Canaan in particular has been subjected to shifting cultural dominance for four thousand years. The proposition that America—a country that followed its founding fathers' advice to avoid foreign entanglements until hegemony made it care not what other nations thought—can navigate the layers of historical and cultural animosities in the region is not just absurd but dangerous.

Applicants to the U.S. Foreign Service must list every trip abroad and every non-U.S. acquaintance, a near-impossibility for any sophisticated person with prior international experience. Holding a passport is a liability. The State Department does not want nuanced operators but drones who can be trained to push whatever geopolitical narrative serves the interests of American imperial ambitions. To ensure that diplomats do not "go native," they are rotated out of their assigned country every three years, five being the maximum allowed. It is joked within diplomatic circles that the British representative speaks the native language plus





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some local dialects, the French is having an affair with the president's wife, and the American is packing his bags by the time he figures out which cabaret is the local equivalent of Rick's American Cafe.

This American diplomatic arrogance destroyed the prospect of a century-long Pax Americana. The collapse of communist ideology brought an eagerness to Eastern Europe and Russia to embrace a capitalist system. But the U.S. was not content with ideological victory; it demanded political dominance. Clinton took the fateful step of bombing Serbia, a close Russia ally, to distract from his Lewinsky scandal, killing two thousand civilians. A humiliated Russia could only stand and watch and seethe and then witness NATO expand relentlessly towards its borders.

"They effectively forgot about the promises made to the Soviet Union and later Russia in the late 1980s and early 1990s that the bloc would not accept new members. Even if they acknowledged those promises, they would grin and dismiss them as mere verbal assurances that were not legally binding," Putin recently told a domestic audience. "Western countries, confident not so much in the righteousness of their cause as in their power and ability to impose whatever they wish on the rest of the world, simply disregarded other perspectives." Disregarded may be the wrong word—were negligently unaware of is probably more accurate.

"Later, these same approaches [as were applied to Serbia] were applied in various countries, which we know all too well: Iraq, Syria, Libya, and Afghanistan. These interventions have done nothing but worsen existing problems, ruin the lives of millions of people, destroy entire states, and create hubs of humanitarian and social disasters, as well as terrorist enclaves. In fact, no country in the world is immune from joining this tragic list." No one in the West likes Putin, but where is the error in his statement? It is the same complaint made by Calgacus the Briton opposing Rome: "They make a desert and call it peace."

This second cold war with Russia, which Clinton stumbled into in 1999, has been growing hotter over the years. First there was NATO expansion. Then there were the U.S. CIA bases in Georgia that oversaw jihadist forays into Russia, which prompted direct Russian military intervention. Recall that a U.S. official admitted: "At best Georgia would win, in which case Russia would fall apart, and at worst the spectacle of Russia crushing little Georgia would reinforce Russia's reputation as the cruel Goliath. So Cheney was telling Misha [Saakashvili], 'We have your back.'"



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Then there was the CIA-orchestrated coup in Ukraine, an attempt to move that country from being a buffer state to being in the U.S. orbit. Then the provocation to invite Ukraine to join NATO, pushing the U.S. military right to Russia's frontier. And now the U.S. is blurring the lines between supporting a proxy and being in direct conflict with Russia: the U.S. is not only delivering weapons but also directly assisting Ukrainians in strategic planning and missile targeting, perhaps more.

"The self-centeredness and arrogance of Western countries have led us to a highly perilous situation today," noted Putin. "We are inching dangerously close to a point of no return. Calls for a strategic defeat of Russia, which possesses the largest arsenals of nuclear weapons, demonstrate the extreme recklessness of Western politicians. They either fail to comprehend the magnitude of the threat they are creating or are simply consumed by their notion of invincibility and exceptionalism. Both scenarios can result in tragedy."

He's right. The average American cannot comprehend the nastiness and thuggery in that part of the world, which only a nation state can hope to contain (though, notably, the Bidens and the Clintons have no problem operating in such an environment). Pursuing a policy that, if successful, would move the control of 5,580 nukes from a centralized state to regional bandits is insanity.

The tragedy is now spreading to the Middle East. Israel recognizes none of its adversaries' red lines given its confidence that U.S. military might is supreme and that the U.S. will always intervene to protect it no matter the circumstance. The most recent provocation was Israel's assassination of the leader of Hamas in Tehran. Iran views the situation as if a head of state were assassinated on a state visit, which fully justifies war. There are reports of Russian cargo planes rushing in heavy weapons while high Russian military officials are on the ground in Iran.

The Middle East is evolving to be the inverse of Ukraine. Instead of a U.S. backed proxy in conflict with Russia, the Russians will be backing their proxy that will end up in direct conflict with the U.S. military. Biden has rushed war ships and fighter planes to support the roughly 45,000 American troops already in the region. The world holds its breath to see how far the Iranians will go and how far they can go: whether American military hardware, which has failed so dramatically in Ukraine, has success against Russian arms optimized in the Ukrainian conflict.

War is expensive—especially for the U.S. with its corrupt and bloated procurement budgets. The CBO now estimates that 2024 direct federal spending will be $6.9 trillion (24.2% of GDP), which is $400 billion higher than its February estimate. The agency blames the increase on





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"aid to Ukraine, Israel, and countries in the Indo-Pacific region." And this is before the second proxy front gets hot. And this addition to the deficit is being financed at 5.5% interest rates, not the 0% that prevailed from 2008 to 2015 and then again in 2020 and 2021.

The U.S. relied on the Fed to finance previous wars. In World War I, the government altered the new Federal Reserve's charter—which originally constrained it from financing anything other than bills with maturities at the time of discount of not more than ninety days—to allow it to finance long-term government war bonds. During World War II, the Fed adopted the policy of purchasing all Treasury bills offered at a fixed rate of 3/8 percent: its holdings of government securities leapt from $2.2 billion in 1941 to $23.7 billion by the end of 1945. The Fed continued this policy during the Korean War, with a cap of 2.5% for long-term bonds.

Not surprisingly, all three episodes experienced soaring consumer inflation, which peaked at 20% in 1920, 20% in 1947, and 10% in 1951. But there was a major difference between those episodes and today: the U.S. was a solvent nation at the outbreak of these previous wars. In 1949, even after World War II and Franklin Roosevelt's profligate spending, the Fed's balance sheet was backed 51% by gold (down from 84% in 1941). Today at spot prices (assuming the gold on the Fed's balance sheet is real), that figure is 8.8%.

The U.S. debt-to-GDP ratio is now 122%, well above levels that get countries into distress. This level of debt was matched in 1946, but that was at the end of war spending and only at the very beginning of the ponzi entitlement state: the debt figure fell to 32% of GDP by 1980. This time, the outlook is dire. The CBO reports that as a baseline, assuming no economic, political, or military crises: "Debt increases in relation to GDP, exceeding any previously recorded level in 2029 and continuing to soar through 2054. It is on track to increase even more thereafter." Much of that increase is due to interest payments, which now exceed military spending. And there will be crises. And if no one else will buy the Treasury bonds, Congress will force the Fed to do so.

The modern debt bubble began in the 1980s as a housing/corporate bubble. Inflation during this period was caused by easy credit granting excessive purchasing power, which was quickly unwound when the credit cycle turned. When the credit bubble popped in 2008, Congress and Bernanke shifted the losses to the government's balance sheet. The government then compounded the problem with trillions of extravagant COVID payments. And let's not forget the trillions spent on war over the past few decades. The inflation this time is because of monetary debasement, which shows no sign of abating.



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The Fed may still be shrinking its balance sheet slowly, but the growing deficit must be financed, and Janet Yellen has figured out that financing the growth with short-term bills is like QE: Money market funds and banks pay cash to the Treasury and receive bills, which, unlike bonds, function just like cash in the financial system—so they get a yield without losing any credit creation capacity. The government then spends the money raised into the economy, raising consumer prices.

Nouriel Roubini published a paper in July that estimates that Yellen's strategy, which he names "activist Treasury issuance (ATI)" "has reduced 10-year yields over the last year by roughly a quarter of a percent, providing similar stimulus as a one-point cut in the Fed Funds rate, the central bank's primary policy tool." This is one reason why the markets have not collapsed despite the sharp increase in interest rates.

Even if ATI is cushioning the markets, the economy is beginning to sour: the COVID stimulus hangover will be a nasty one. The Fed's mandate is to keep both inflation and unemployment low, but the July 31 FOMC statement added the line: "The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate." There is a word for high unemployment occurring in context of high inflation: stagflation.

The previous prolonged stagflation occurred in the 1970s and was exacerbated by the Yom Kippur War in 1973. That war did not emerge spontaneously: Egypt began bombing Israeli positions in 1967 using Soviet military hardware. Israel responded in kind using U.S. weapons, and both sponsors ramped up their military support until the denouement six years later.

The 1970s stagflation was actually worse for stocks than the 1930s, but in a different way. The 1920s bubble was simply a credit bubble, there was no monetary debasement. The S&P 500 crashed 88% in nominal terms from peak to trough. In the 1970s, the S&P 500 from its peak in 1967 to its trough in 1980 fell only 14% in nominal terms but 94% in terms of gold.

If we are living through a repeat of the 1970s—and the parallels seem so perfect—we should not expect a cataclysmic collapse of the stock market despite the ridiculous valuations. Stocks would, instead, lurch higher and lower within a trading range for the next decade, ending at roughly the same nominal price but worth 90% less.

Gold, on the other hand, will reveal the carnage. It rose twenty-four fold from 1971 to 1980. The way we look at it, gold went from being 12% of the Fed's balance sheet to 133% in the final dollar panic. Gold currently represents just 8.8% of the Fed's assets, so it would need to jump 36% to $3,300/oz just to get to the 1970 low.





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This inflationary episode is likely to be worse than the 1970s. The U.S. debt position is far worse; the Fed is stuffed with long-term, illiquid assets; American international arrogance has alienated all but its most dependent allies; the U.S. military is weighed down with DEI rot and overly-complex, expensive weapons systems; the U.S. has exported its manufacturing base; and the U.S. is no longer a culturally homogeneous society (increasing the potential for domestic unrest). The most important change for investors, however, is none of those: it is the fate of the Eurodollar system.

The Soviet Union inadvertently created the Eurodollar system in the 1950s when it found itself with U.S. dollars and convinced European banks to accept dollar deposits. European banks then started lending out Soviet dollars, and the fractional reserve system meant they could expand that lending well beyond the quantity of raw dollars on deposit. When the Bretton Woods gold-backed dollar standard collapsed in 1971, Kissinger convinced the petro-states to recycle their profits into dollar deposits both at U.S. and non-U.S. banks, expanding the dollar debt system. Suddenly, all the major players in the world owed each other dollars, granting the Fed control over the global economy and the U.S. Congress a method to extract seigniorage to support the costs of empire.

Blinken's idiotic sanctions on Russia threatens to destroy this monetary architecture. As Putin understands:

> By stealing Russian assets, they will take one more step towards destroying the system that they created themselves and that for many decades ensured their prosperity, allowed them to consume more than they earn, and attracted money from all over the world through debts and liabilities. Now it is becoming clear to all countries, companies and sovereign wealth funds that their assets and reserves are far from safe, both legally and economically. And anyone could be the next in line for expropriation by the United States and the West, those foreign sovereign wealth funds could also be the one.
>
> There is already a growing distrust of the financial system based on Western reserve currencies. There has appeared a certain outflow of funds from securities and bonds of Western countries, as well as from some European banks, which were until fairly recently considered to be absolutely reliable to put capital in. Now gold is also being taken out from those banks. And this is the right thing to do."

Empires are expensive. Trump wanted to withdraw gradually. Instead America is following Alcibiades's logic: "We cannot fix the exact point at which our empire shall stop; we have



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reached a position in which we must not be content with retaining but must scheme to extend it, for, if we cease to rule others, we are in danger of being ruled ourselves." If America's military cannot perform, and its economy cannot perform, and its debt cannot perform, neither can its empire: Without its sponsor, the Israeli state risks becoming but another entry in that long list of powers that have controlled Canaan; Ukraine, instead of being a buffer state or U.S. client state, risks becoming a Russian client state. Already the U.S. is being ruled by those who accept bribes from foreign powers. Whatever our opinions about Russia and Putin, he is a keen observer of international affairs: buying gold "is the right thing to do."





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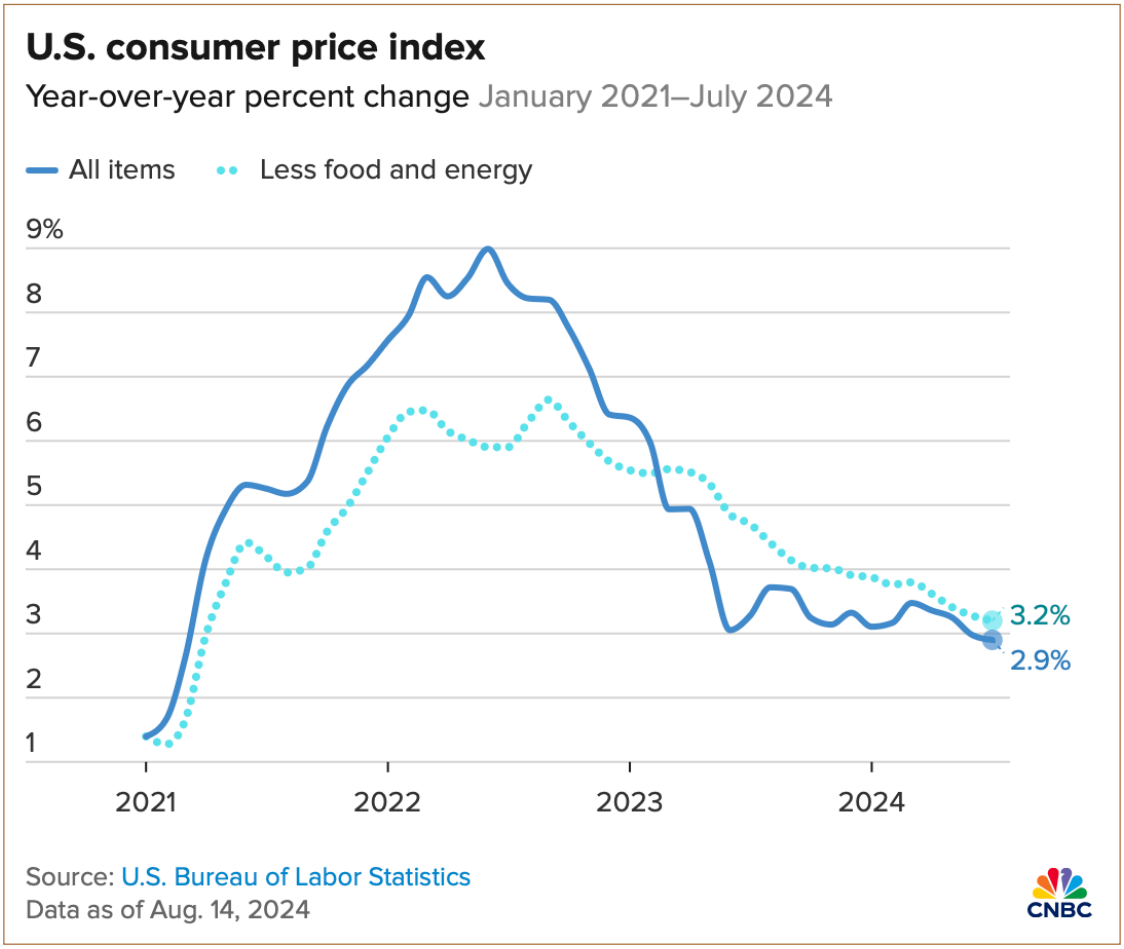
**The official inflation rate slowed to 2.9% in July, the lowest since 2021 (from CNBC)...**

Inflation rose as expected in July, driven by higher housing-related costs, according to a Labor Department report Wednesday that is likely to keep an interest rate cut on the table in September.

The consumer price index, a broad-based measure of prices for goods and services, increased 0.2% for the month, putting the 12-month inflation rate at 2.9%. Economists surveyed by Dow Jones had been looking for respective readings of 0.2% and 3%.

Excluding food and energy, the core CPI came in at a 0.2% monthly increase and a 3.2% annual rate, meeting expectations.

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**Yet, beneath the surface, there are signs inflation may already be reaccelerating (from The Kobeissi Letter via X)...**

3-month annualized core PPI inflation rose to 5.0% in June, its highest since 2022.

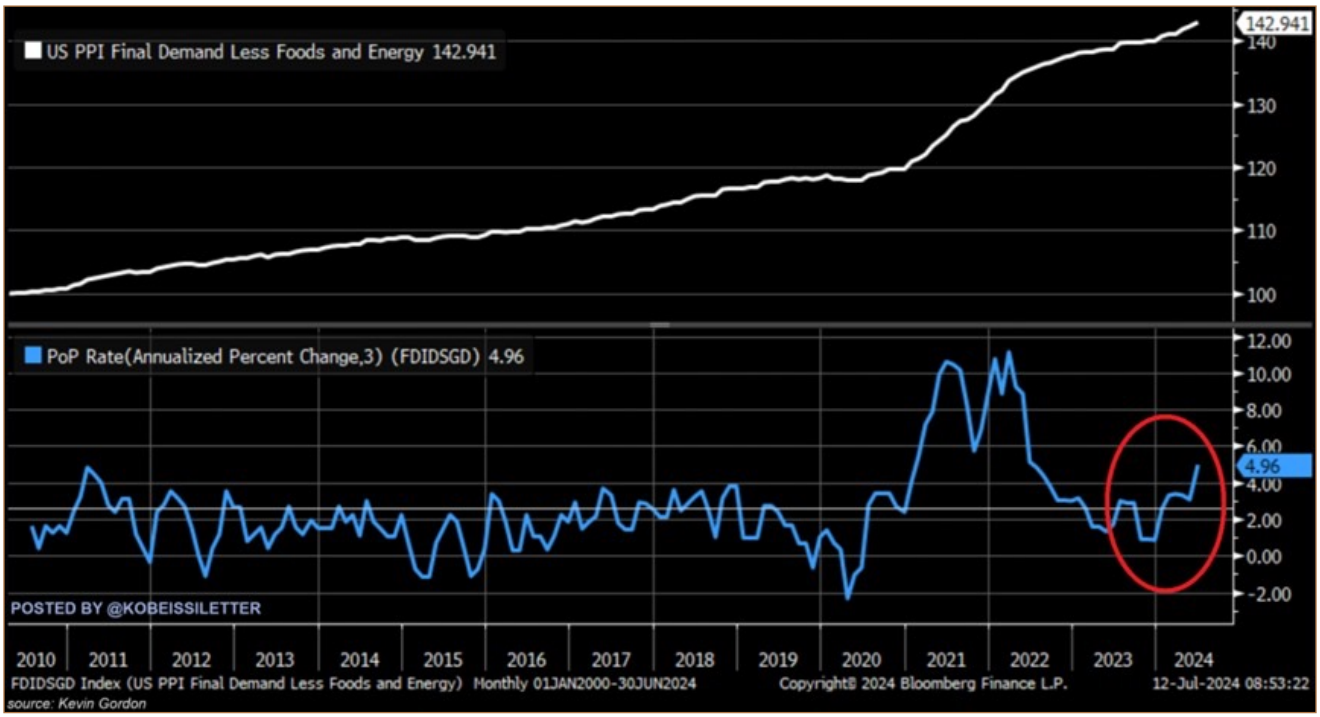
This metric has more than DOUBLED in just 6 months.

This is also higher than in any period over the last 15 years, except for 2021 and 2022.

Overall, core PPI rose to 3.0% in June and has now risen in 4 out of the last 5 months.

Even as CPI inflation is back on the decline, other datapoints are showing warning signs.

Inflation is still too high.





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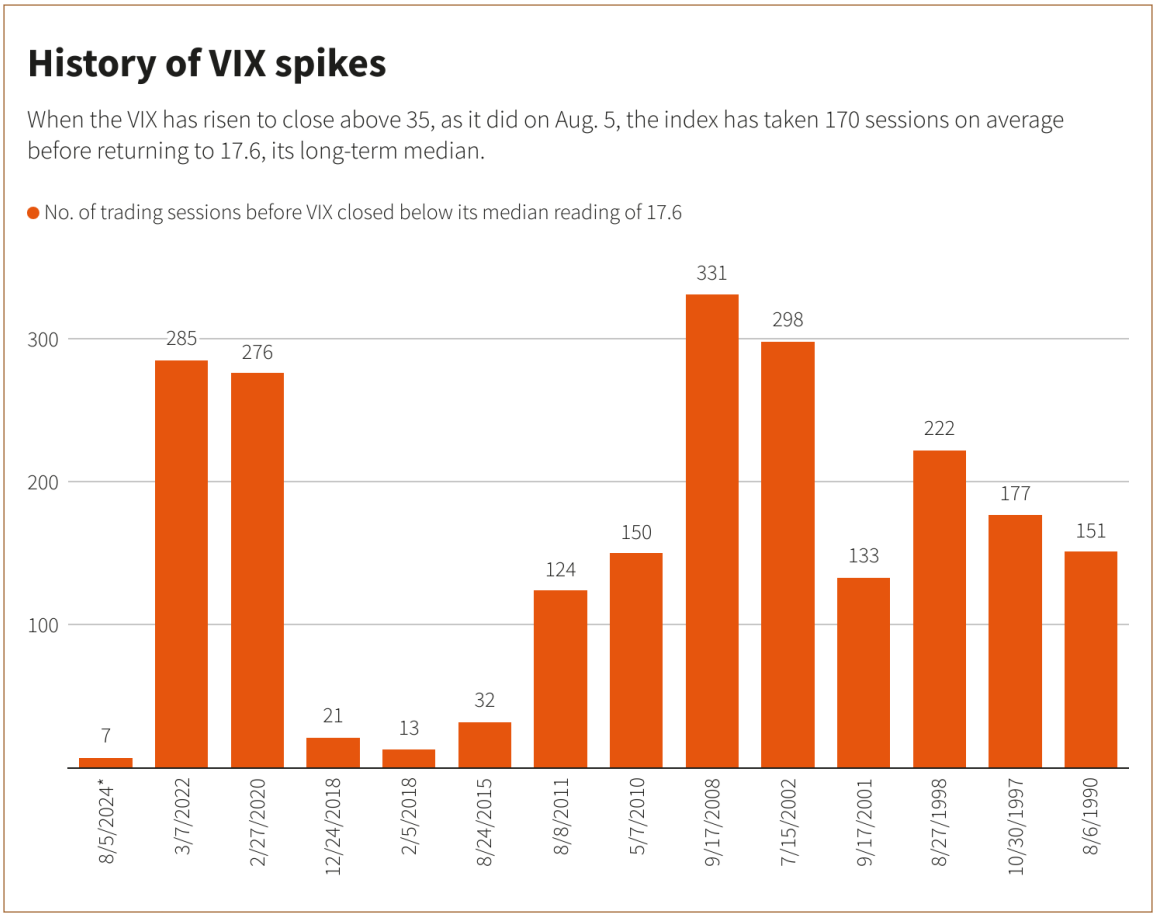
**This month's CBOE Volatility Index (VIX) "roundtrip" was unprecedented (from Reuters)...**

Wall Street's most-watched gauge of investor anxiety is continuing its speedy retreat from panic levels, suggesting that investors may be returning to strategies that bank on low stock volatility despite a near-meltdown in equities early this month.

The Cboe Volatility Index slipped to 16.31 on Wednesday, its lowest level since the beginning of the month. The index hit 65 on Aug. 5 and closed at a four-year high of 38.57 on that day as investors roiled markets by unwinding several massive positions such as the yen-funded carry trade.

[T]he seven trading sessions it took the VIX to return to its long-term median of 17.6 [were the] index's quickest ever drop from 35, a level associated with a high degree of fear. Similar reversions in the so-called fear gauge have, on average, taken 170 sessions to play out, according to a Reuters analysis.



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Some options mavens believe the rapid retreat in the so-called fear gauge signals investors have returned to strategies that bank on markets remaining calm to deliver profits. Among those is the dispersion trade, in which investors seek to take advantage of the difference between index-level volatility and volatility in single stock options, analysts said.

**Continue reading here**





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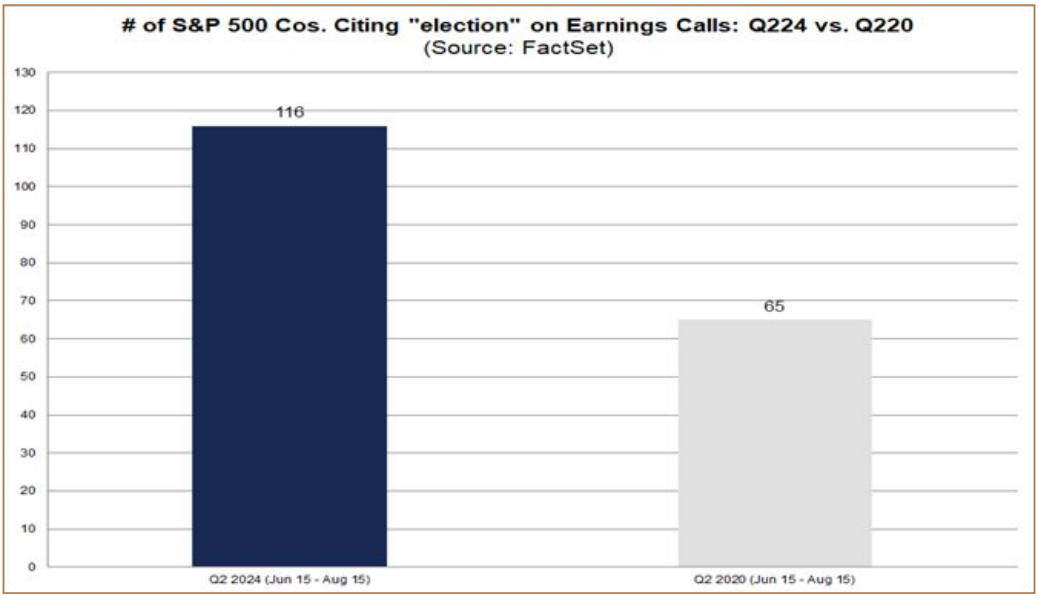
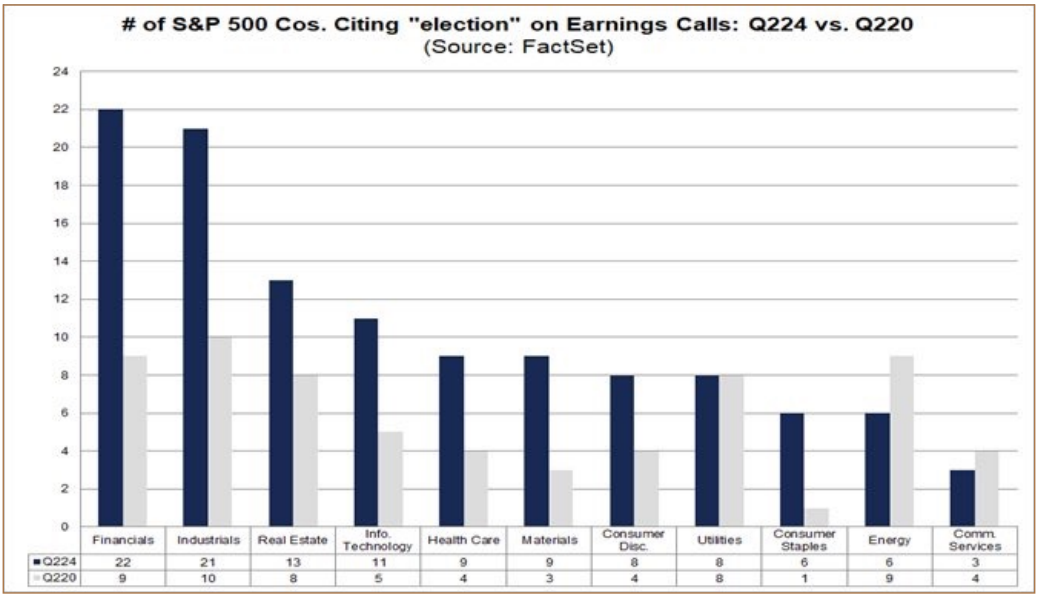
**Corporate executives are unusually concerned about the U.S. presidential election this year (from Liz Ann Sonders via X)...**

Through same point in time in each quarter, number of S&P 500 companies citing term #election or #elections during 2Q24 earnings calls is > 75% higher than in 2Q20 (116 vs. 65); at sector level, Financials (+13) and Industrials (+11) have largest increases @FactSet



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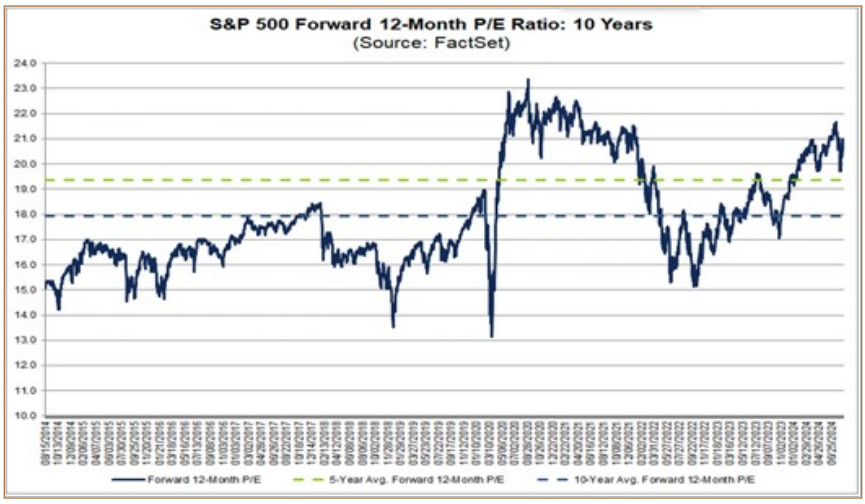
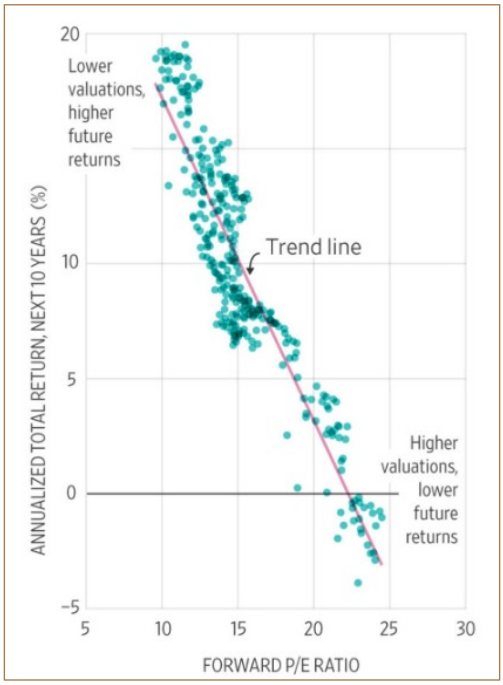
**Today the market is trading at nearly 22x forward price-to-earnings (P/E), that's close to a peak versus the last 10 years (from JF Tardif via X)...**




Historically, higher valuations yield lower returns over the next 10 years. At 22x forward P/E, using history, the forward return 10-year profile is negative or low single digits at best.





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**The equal-weighted S&P 500 is at an all-time high (from Kevin Gordon via X)...**

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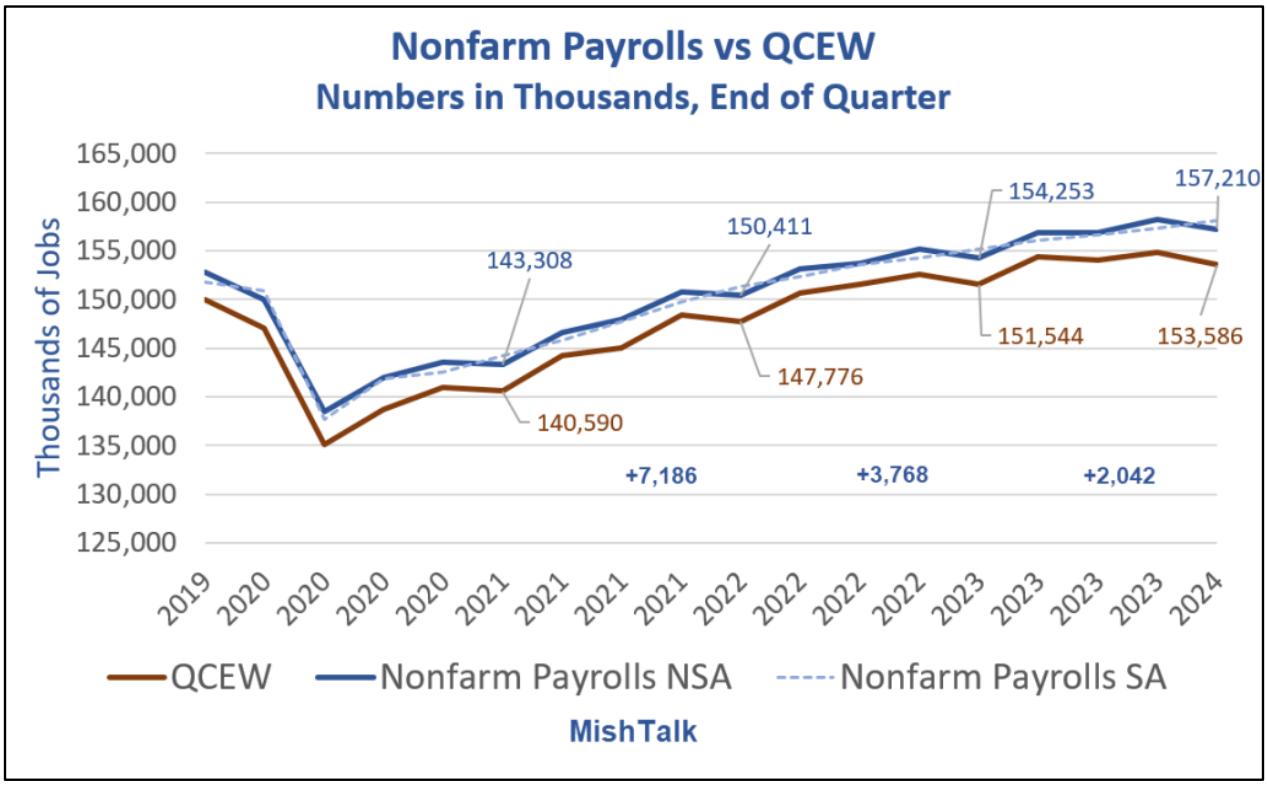
**White House revises jobs down by 818,000 – the most ever, about 68,000 per month (from MishTalk)...**

Do I get to say I told you so? My advance estimate a month ago was 779,000 lower. Bloomberg estimated 730,000.




**Major Downward Revisions to US Jobs Pushes the Fed to Act**

ING reports **Downward Revisions to US Jobs Pushes the Fed to Act**

> The Bureau for Labor Statistics has acknowledged that its non-farm payrolls estimates were above the levels shown by tax records to the tune of 818,000. So rather than adding 2.9mn jobs in the 12M to March 2024, there were only 2.1mn new jobs. This means labour market momentum is being lost from a weaker position than originally thought
>
> After quite a bit of delay and confusion we have finally got the preliminary benchmark revisions to US non-farm payrolls – where the Bureau for Labor Statistics (BLS)





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> adjusts its estimates for non-farm payrolls to reflect official tax data – the true benchmark for US employment. It is a chunky 818k, meaning that rather than 2.9mn jobs added in the 12M to March 2024, it was "only" 2.1mn – equivalent to a 0.5 percentage point error on payrolls. So rather than averaging monthly payrolls gains of 246,000 it was only 178,000.
>
> Historically, the BLS has been out by 0.1pp with its estimates versus the tax data – that is the 10Y average. Last year they were out by 0.2pp, requiring a 306k downward revision so today's announced change is a big error and suggests there are some clear issues regarding some of the assumptions the BLS uses to complement its surveys of US businesses. The BLS has a good handle on what is going on amongst large employers, but has less visibility on the small business sector and has a "births-death" model.

That is what I said a month ago. My estimate was 779,000. Anna Wong at Bloomberg estimated 730,000.

On July 26, 2024 I commented **Expect the BLS to Revise Job Growth Down by 730,000 in 2023, More This Year**

Apologies for being overly optimistic.

I am struggling to match 818,000 this morning. Using unadjusted numbers, I calculate a discrepancy of 915,000.



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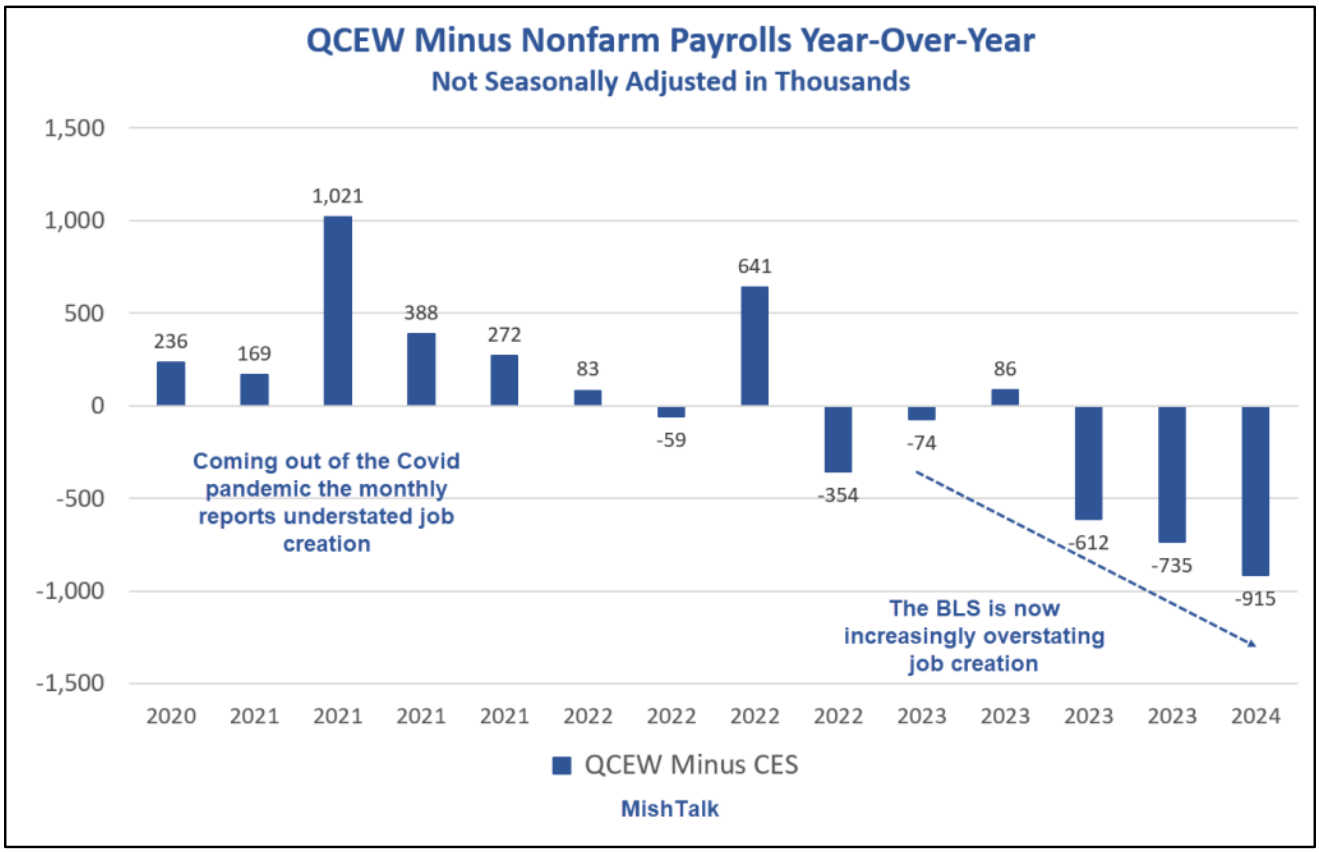
**QCEW Minus Nonfarm Payrolls Year-Over-Year**




It's very clear what's happening.

The BLS models went haywire after Covid. First the BLS understated jobs and now the BLS is dramatically overstating them.

Jobs up by over 2 million from a year ago might look good. But I guarantee you it won't stick.

Revisions are increasingly negative across the board and will stay that way.

**Continue reading here**





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***Wall Street Journal* reporter Nick Timiraos – known as the "Fed whisperer" – reported that "the Powell Pivot is complete" following the Fed chair's speech last week (from Nick Timiraos via X)...**

Powell is dovish across the board—from the same stage where he two years ago signaled the Fed would accept a recession as the price of restoring inflation:

> "The cooling in labor market conditions is unmistakable."
>
> "It seems unlikely that the labor market will be a source of elevated inflationary pressures anytime soon."
>
> "We do not seek or welcome further cooling in labor market conditions."
>
> "The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."
>
> "We will do everything we can to support a strong labor market as we make further progress toward price stability."



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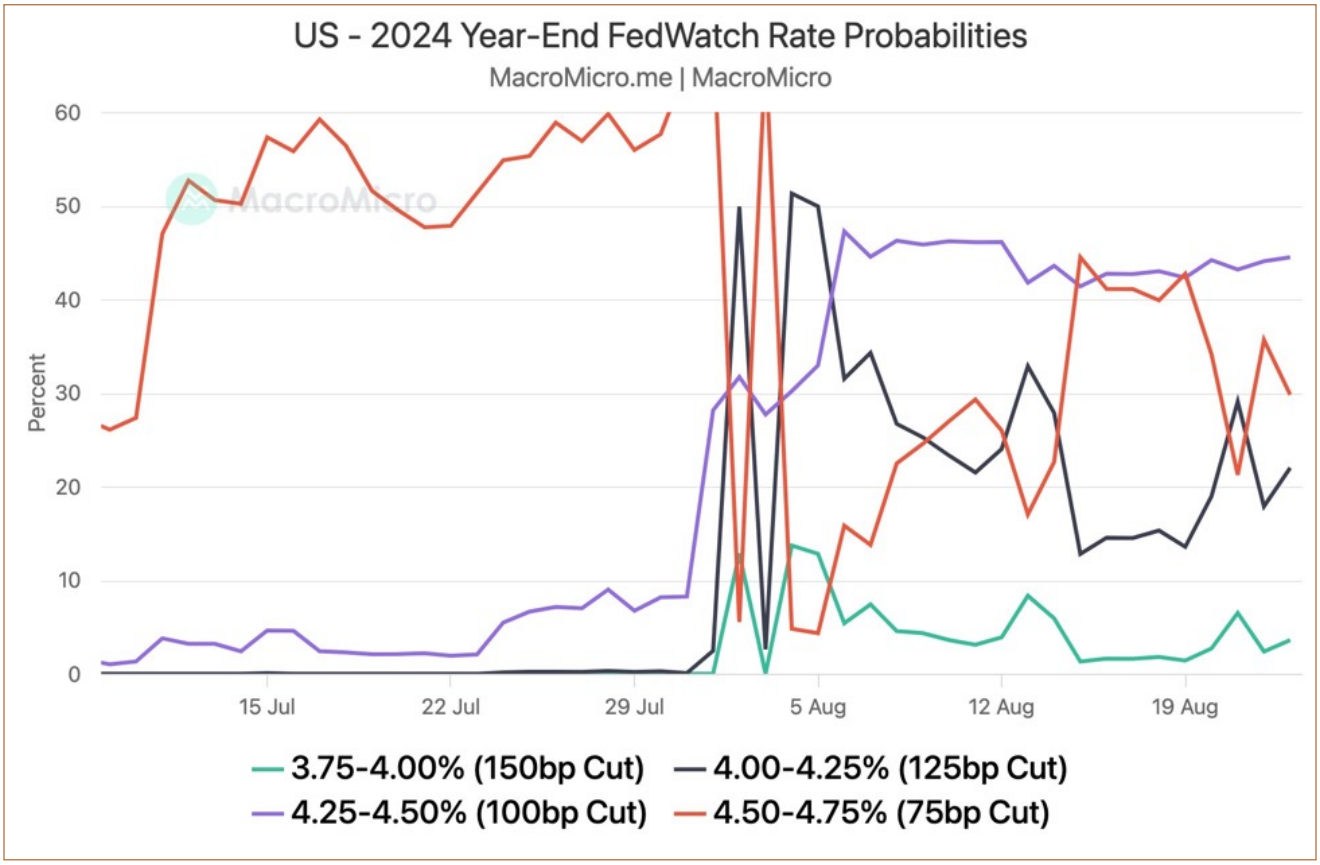
**With just three Fed monetary policy meetings left this year, the only question now is how much the U.S. central bank will cut rates (from MacroMicro via X)...**

Market expectations suggest a 100bp cut is most likely, indicating one meeting could see a 50bp reduction.





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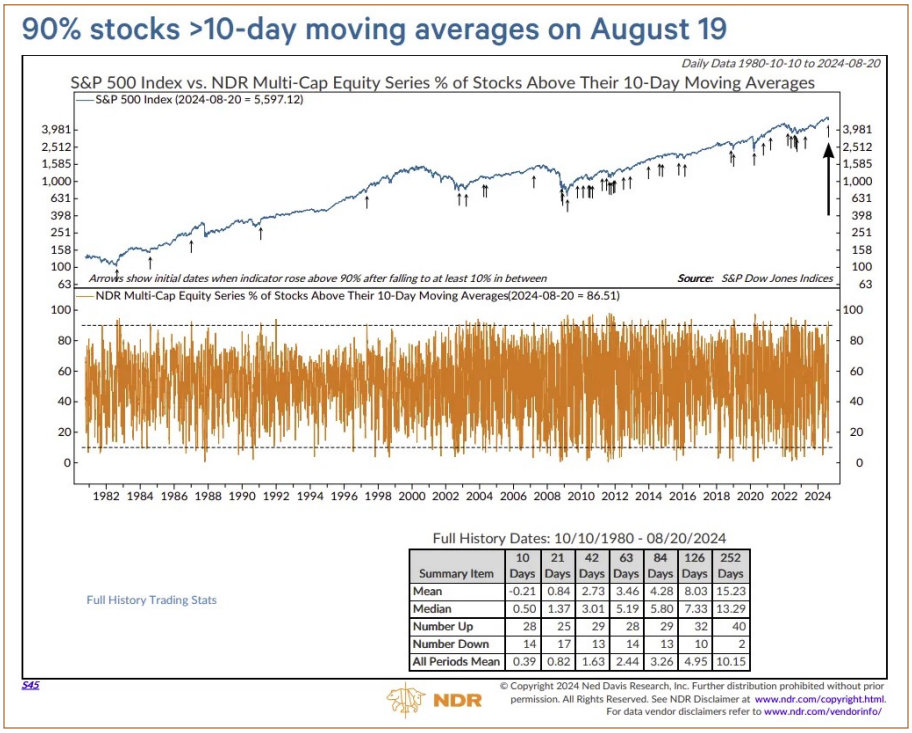
**The market experienced two notable "breadth thrusts" this month, which has historically been a bullish signal (from The Sandbox Daily)...**

The strongest rallies tend to occur when most stocks are participating. The rationale is that if a few stocks run into trouble, others can propel the indexes higher. The beginning of major moves is often marked by breadth thrusts, or an extremely high percentage of stocks rallying together.

That is why breadth thrusts are the final step of a bottoming process following a market correction, like the declines we experienced earlier this month. Since the recent drawdown was so quick, the bottoming process should be, too. The market bottomed and hit oversold levels on August 5, rallied on August 6, and retested on August 7. Then the market rocketed higher from there.

One significant breath thrust came on August 8 via an 11:1 up day (advancing volume was 11 times greater than declining volume), signaling a strong move off the local lows.

A second breadth thrust fired on August 19, when over 90% of stocks rose above their 10-day moving averages.




| Summary Item | 10 Days | 21 Days | 42 Days | 63 Days | 84 Days | 126 Days | 252 Days |
|---|---|---|---|---|---|---|---|
| Mean | -0.21 | 0.84 | 2.73 | 3.46 | 4.28 | 8.03 | 15.23 |
| Median | 0.50 | 1.37 | 3.01 | 5.19 | 5.80 | 7.33 | 13.29 |
| Number Up | 28 | 25 | 29 | 28 | 29 | 32 | 40 |
| Number Down | 14 | 17 | 13 | 14 | 13 | 10 | 2 |
| All Periods Mean | 0.39 | 0.82 | 1.63 | 2.44 | 3.26 | 4.95 | 10.15 |



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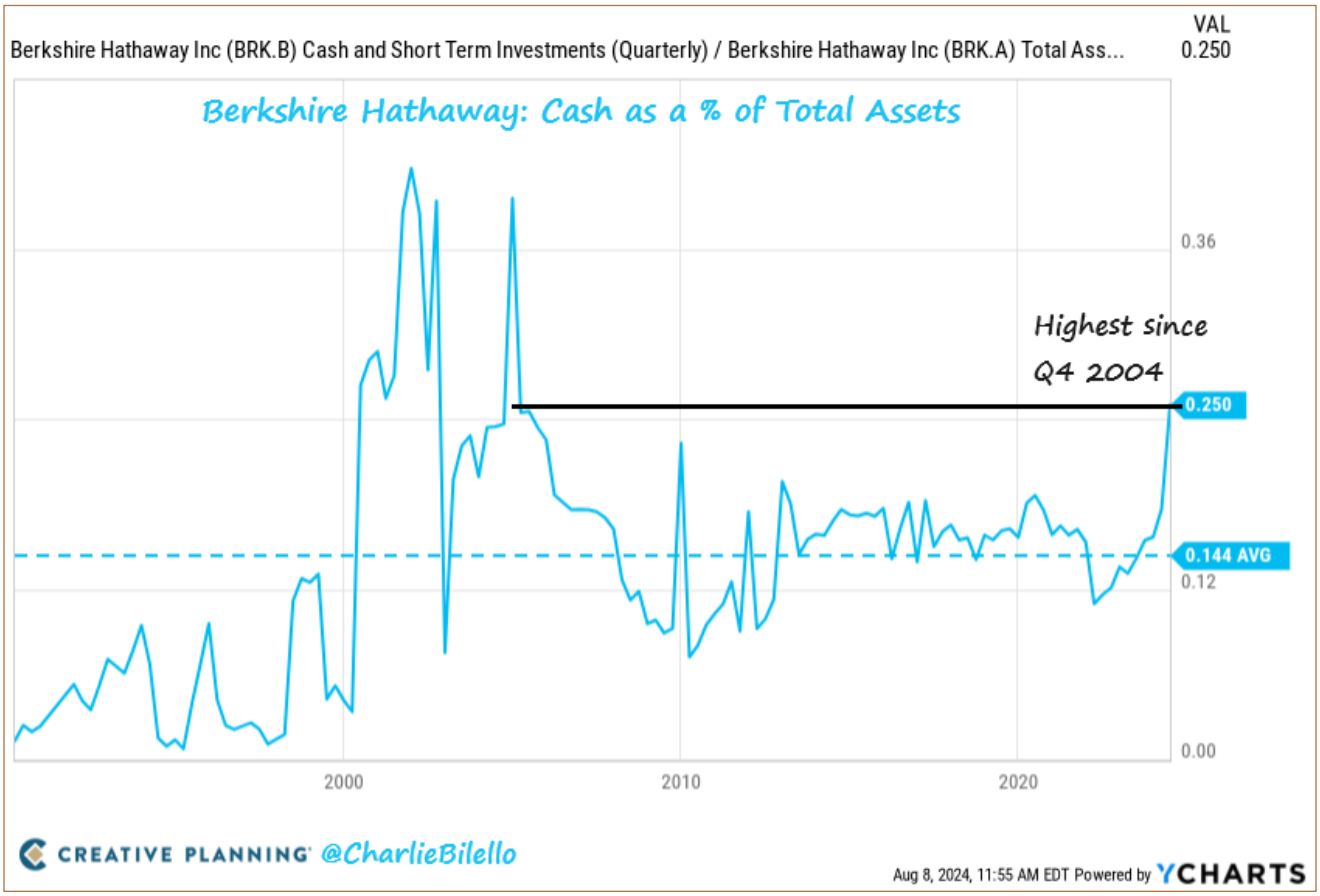
# THE LEGENDS SPEAK

## Wisdom and Insight From the World's Greatest Investors

**Warren Buffett's Berkshire Hathaway is now holding its highest cash levels in 20 years (from Charlie Bilello via X)...**

Berkshire Hathaway is now holding 25% of their Assets in Cash, the highest % since 2004. Historical average cash position: 14%.





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**Details on Berkshire Hathaway's latest investment activity (from The Berkshire Beat)...**

[Earlier this month], Berkshire Hathaway's 13F granted us our quarterly peek behind the curtain at Warren Buffett and co.'s investment activity during Q2 2024.

The conglomerate's recent 10-Q spoiled some of the bigger surprises — like Buffett selling nearly half his remaining Apple stock — but the filing still affords all of us the opportunity to learn more about how our favorite super-investors ply their trade.

| Q2 2024 | | |
|---|---|---|
| SIRI - Sirius XM Holdings Inc. | Add 262.24% | 96,196,301 |
| LSXMA - Liberty Sirius XM Series A | Add 7.41% | 2,426,595 |
| LSXMK - Liberty SiriusXM Series C | Add 6.90% | 4,516,609 |
| CB - Chubb Limited | Add 4.28% | 1,109,944 |
| OXY - Occidental Petroleum | Add 2.93% | 7,263,396 |
| ULTA - Ulta Beauty Inc. | Buy | 690,106 |
| HEI.A - HEICO Corp. CL A | Buy | 1,044,242 |
| LLYVA - Liberty Media Corp. Series A Live | Reduce 1.29% | 65,330 |
| LLYVK - Liberty Media Corp. Series C Live | Reduce 1.93% | 214,929 |
| CVX - Chevron Corp. | Reduce 3.55% | 4,369,673 |
| LPX - Louisiana-Pacific Corp. | Reduce 9.60% | 633,154 |
| TMUS - T-Mobile US Inc. | Reduce 10.87% | 570,000 |
| FND - Floor & Decor Holdings | Reduce 16.78% | 802,130 |
| COF - Capital One Financial | Reduce 21.27% | 2,651,978 |
| AAPL - Apple Inc. | Reduce 49.33% | 389,368,450 |
| SNOW - Snowflake Inc. | Sell 100.00% | 6,125,376 |
| PARA - Paramount Global CL B | Sell 100.00% | 7,531,765 |

*Berkshire Hathaway's investment activity in Q2 2024 (h/t Dataroma)*

Let's take a closer look at the in's and out's of the Berkshire portfolio — as well as all of the latest news and notes out of Omaha...



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- **Berkshire Hathaway opened two new common stock positions in the second quarter: Ulta Beauty and HEICO**. Based on the size of these investments — both roughly in the $200-250 million range — we're probably talking about Todd Combs or Ted Weschler picks here.
    - Combs seems the likeliest buyer of HEICO. He has dabbled in the aerospace industry before with Precision Castparts. (Warren Buffett said he didn't know anything about Precision before Combs started investing in it. "You've got to give credit to Todd Combs for this deal," he said when Berkshire acquired the Portland-based company in 2016.)
    - And, while I can't offer any personal testimony about Ulta's products, the specialty beauty retailer has built a strong brand with female customers — evidenced by consistent same-store sales growth. International expansion could be a future tailwind, too.
- **Other additions include more Occidental Petroleum, Chubb (topping up Berkshire's stake in the insurer from 6.4% to 6.7%), and Sirius XM Holdings**. We already knew about the 6.9 million shares of Liberty Media Sirius XM trackers, but Berkshire also loaded up on SIRI 0.00%↑ ahead of next month's combination.
- **Ten different stocks ended up on the chopping block**. Berkshire trimmed its Liberty Live trackers (Series A & C), Chevron, Louisiana-Pacific (for the second quarter in a row), T-Mobile, Floor & Decor, Capital One Financial, and Apple — and also fully exited Paramount Global and Snowflake.
- **Buffett reduced his Apple position down to 400 million shares on the nose**.That's the exact same amount as Coca-Cola, which is commonly believed to be a permanent holding. Is that 400 million number a random fluke or a sign that he might be done selling Apple? The obsessive round-number-lover inside of me very much hopes it's the latter.
- **Barron's estimates that Berkshire will owe about $15 billion in taxes on its recent sale of Apple stock**. With a cost basis of about $34 per share, the vast majority of each sale represents a taxable capital gain. But, while Berkshire will be writing a pretty hefty check to the government, it will not affect the company's earnings number. "When Apple or another stock appreciates," writes Andrew Bary, "Berkshire Hathaway sets aside about 25% of the gains in a provision for income taxes." This provision totaled $57 billion at year-end 2023 — covering gains on Bank of America, Coca-Cola, American Express, as well as Apple.





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  - The bottom line from Bary: "Buffett essentially decided that he'd rather have cash equal to nearly 80% of the value of the Apple stake — our estimate — than the Apple stock."

- **John Huber of Saber Capital Management warns investors not to get the wrong idea about Buffett's buzz cut of Apple**. "One thing his Apple sale is not: a market prediction," writes **John Huber**. "I've seen all kinds of commentary that references the Apple sale in the context that Buffett is bearish or is predicting a market decline. He has always said he doesn't have any idea what the market is going to do near term (nor does anyone else). He is not predicting anything bad happening to Apple or to stocks in general. I think his Apple sale is simply a byproduct of his investment process. The stock has become more expensive, offering less value, and therefore he views cash as a better alternative. It says much about Apple's valuation, but little about where the stock is headed next."

- **Sticking with Apple for a second, the iPhone maker might end up catching a stray in Google's antitrust tussle**. Earlier this month, parent company Alphabet got hit with an antitrust verdict in district court which mostly focused on the dominance of Google Search — and the eventual fallout from this could cost Apple more than $20 billion per year. Alphabet currently pays that amount to make Google the default search engine in Apple's Safari internet browser. If that kind of arrangement gets outlawed, Apple would be out the $20+ billion while the vast majority of iPhone users would likely carry on using Google like always.

- **CrownRock Holdings — which sold CrownRock LP to Occidental Petroleum — is ready to cash in on Oxy stock**. It received 29.6 million shares of **OXY 0.09%↑** common stock as part of the payment for CrownRock LP — and will not waste any time before monetizing those shares. CrownRock Holdings hopes to bring in $1.7 billion through the sale of these shares. Might Berkshire be interested?

- **Dividend checks keep rolling into Omaha:** Yesterday, Berkshire collected $100 million from Apple, $8.7 million from Ally Financial, and $2.8 million from Aon in quarterly dividends. (That Apple number might be lower if Buffett sold more shares during the third quarter.)

- **Over his long career, Warren Buffett has handled "overvalued" holdings in many different ways.**

  Dividend Growth Investor takes a closer look at the hits and misses — from Coca-Cola to Costco — and how they all shaped his decision to pare back on Berkshire's massive



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position in Apple. “The game of investing is fascinating,” writes DGI, “because there are no hard and fast rules. The same type of logic and reasoning could work very well under one set of conditions, and fail miserably under another. The investor can only hope that consistent application of sound principles could average out to an overall record of profits.”

- I’**ve always considered Li Lu to be Berkshire-adjacen**t. The Charlie Munger seal of approval counts for a heck of a lot around here. Well, anyway, the Chinese-born investor purchased 1.46 million shares of Occidental Petroleum for his Himalaya Capital Management fund in the second quarter.





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**Buffett disciple Mohnish Pabrai on why Berkshire invested in Occidental Petroleum (OXY) (from Kevin Carpenter via X)...**

Slightly out-of-date since Oxy paused share repurchases until its debt gets back under $15 billion after acquiring CrownRock, but an interesting peek at Buffett and Munger's thinking.

> One time, I was talking to [Charlie Munger] and he mentioned that he would love to have an investment in Exxon [if he could] get a commitment from the management that they would do no more cap-ex and they would simply run all the [oil] fields with the cash flows going to the shareholders. He had calculated that it would be a tremendous investment.
>
> And, of course, oil companies don't think that way.
>
> But Oxy thinks that way.
>
> If you study Occidental, what you'll find is they don't really have exploration going on … Oxy basically has no speculative drilling going on. So, in effect, it looks like a CD. They're clipping coupons.
>
> What Oxy is doing is they have a huge gusher of cash flows coming out and that huge gusher of cash flows is only going into buybacks and dividends. It's all being pumped out to shareholders — and [Warren Buffett] loves that.
>
> He looks at Oxy as U.S. Treasuries on steroids.



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**How the late Berkshire Vice Chairman Charlie Munger conquered envy (from Hedge Fund Alpha)...**

> *"Envy and jealousy made, what, two out of the Ten Commandments? I've heard Warren say a half a dozen times, 'It's not greed that drives the world, but envy.' Envy is a really stupid sin because it's the only one you could never possibly have any fun at." - Charlie Munger*

Pierce the veil of envy and behold the inescapable reality of status and hierarchy in human life.

Envy arises in comparisons that diminish self-esteem.

Envy can fester into anger, obsession, paranoia, even vengeance.

Envy is ever-present in human relations and looms large upon the world stage.

Witness the proliferating and threatened wars of aggression, slaughter, rape and plunder waged by proud, imperious, often manic, tyrants, who satisfy envy through conquest.

In all present-day theaters of war and threatened war it is the less prosperous nation threatening or attacking the more prosperous.

> *"Wars are caused by undefended wealth." - Ernest Hemingway*

**Exceptions to Charlie's "Stupid Sin" of Envy**

Contrary to Charlie Munger's wise pronouncement, that envy is sin without "fun," envy actually incentivizes two unwholesome pleasures:

Delight in the theft or destruction of what is envied, a second breach of the Ten Commandments;

- Schadenfreude, joy at another's sorrow.

At its most extreme envy invites mutual destruction---Game Theory's Lose/Lose outcome---the shadow of which looms over our world today, in the rising threat of nuclear war...

"Fair and even" can be Win/Win or Lose/Lose.

**Win/Win Relations Conquer Envy**

Charlie Munger always advocated Win/Win outcomes to the exclusion of all others: mutually





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advantageous business, personal and professional relations, where each party wins, again and again.

Repeated Win/Win's build Charlie's maximally productive and satisfying "Circle of Trust," in which we should all seek to live and work.

Think Costco.

Think Berkshire Hathaway.

Anywhere the customer, the shareholder, the employee, the government, the supplier and the public, are happy and satisfied with the system and each other and envy does not prevail.

At the 2022 Daily Journal Annual Meeting, Charlie Munger assured his audience that he had eliminated envy in his life:

> *"I have conquered envy in my own life. I don't envy anybody. I don't give a damn what somebody else has." - Charlie Munger*

Why?

Because at the end of a long life of accomplishment, wealth accumulation and beneficence, learning, teaching and world-wide admiration, why *would* Charlie be envious of anyone?

He was Win/Win.

He won.  And so did we.

But how do we, lesser mortals, conquer envy in our own lives?

As Charlie instructed:

1. Be rational, not emotional;
2. Evaluate opportunity costs;
3. Seek and maintain Win/Win relationships;
4. End relationships with suboptimal outcomes: Lose/Lose, Win/Lose, Lose/Win.

**Continue reading here**



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**Warren Buffett on the lessons of a lousy business (from Kingswell)...**

Warren Buffett often makes investing look easy.

His batting average would be the envy of anyone enshrined in Cooperstown.

At times, he even appears to possess a Midas touch of sorts — floating from triumph to triumph with nary a bump or bruise in between.

But that's not exactly the whole story.

In fact, the very thing that honed Buffett's ability to spot wonderful companies and identify undervalued investment opportunities was his hard-won experience dealing with the dregs of the business world.

At the Berkshire Hathaway AGM in 2017, he admitted that it was his firsthand experiences with "lousy" businesses that made him the investor he is today.

"If you want to be a good evaluator of businesses," said Buffett, "you really ought to figure out a way — without too much personal damage — to run a lousy business for a while. You'll learn a whole lot more about business by actually struggling with a terrible business for a couple of years than you learn by getting into a very good one where the business itself is so good that you can't mess it up."

"It certainly was a big part of our learning experience ... Just seeing how little you can do about [a lousy business] and how IQ does not solve the problem and a whole bunch of other things. It's a useful experience — but I wouldn't advise too much of it."

"It was very useful to us," Charlie Munger agreed. "There's nothing like personal, painful experience if you want to learn — and we certainly had our share of it."

One of the most memorable examples of this "personal, painful experience" came when Buffett's partnership took control of a failing windmill maker in 1961.

It's not just one of the most interesting chapters of Buffett's long career, but his time at Dempster Mill Manufacturing Co. imprinted several lessons on the young investor that he would apply to Berkshire Hathaway a few years later.

**One of Warren Buffett's first big investments so nearly ended in tears.**

> *"If Dempster had gone down," he said, "my life and fortunes would have been a lot different."*





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Back in the late '50s and early '60s, business quality mattered much less than stock price to the devout Ben Graham disciple. And what appeared to be an outrageously low price is exactly what led Buffett to Dempster Mill Manufacturing Co., a windmill and farm implement maker based in Beatrice, Nebraska.

Buffett started buying shares for his partnership at $18 a piece — which was just 25% of the company's book value. Eventually, he snapped up enough of them — at an overall cost basis of $28 per share — to take majority control of Dempster.

His prize? A front row seat to the dysfunction that caused Dempster to trade at such a low valuation in the first place. The quantitative metrics might have screamed BUY!, but the sharks were circling right beneath the surface. Sales had flatlined, unsold inventory piled up, and cash was in dangerously short supply.

Buffett tried to enact positive change without upsetting the apple cart — helpfully making suggestions as a member of the board — but that went nowhere. Dempster management paid lip service to the new owner's ideas, but basically ignored them.

Before long, as Dempster continued its tailspin downwards, the bank threatened to seize unsold inventory as security against unpaid loans — and even rattled its saber about shutting down the whole company.

Staring disaster in the face, Buffett turned to Charlie Munger for help. And, thankfully, Charlie knew just the man for the job. "A good friend, whose inclination is not toward enthusiastic descriptions, highly recommended Harry Bottle for our type of program," Buffett wrote to his partners in 1962.

Charlie knew that Bottle was not afraid of making tough (and unpopular) decisions. And that's exactly what Buffett needed to put Dempster back on a sustainable path. In other words, the affable and conflict-averse Buffett needed a hatchet man.

Buffett and Bottle connected in Los Angeles in April of 1962 and, less than a week later, Bottle was in place in Beatrice. With a $50,000 signing bonus and Dempster stock options for his trouble. From Buffett's perspective, no money has ever been better spent.

"Hiring Harry may have been the most important management decision I ever made," he said later. "Dempster was in big trouble under two previous managers and the banks were treating us as a potential bankrupt."



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Bottle — who described himself as "a doctor of sick companies" — wasted no time in clearing out inventory, closing unproductive branches, laying off employees, and even raising prices on items where Dempster was the sole supplier. All of this combined to convert what had been stagnant inventory into a cash surplus.

A cash surplus that was deployed into an investment portfolio rather than throwing good money after bad in the windmill business.

No question: Harry Bottle played hard ball. His was not a Kumbaya-style of management. Some people don't like that. But drastic times call for drastic measures.

(In a Christmas letter to employees, Bottle admitted that some of the things done to right the ship "were distasteful to all of us".)

On one occasion, Bottle had a white line painted on the wall of Dempster's warehouse ten feet above the floor. Then he told management that if he ever saw boxes of inventory piled up higher than the line, everyone working there (except the shipping department) would be fired. And, as time went on, he kept lowering the line.

Tough tactics — but they worked.

In only one year, Bottle completely transformed Dempster into a profitable operation.

- 1961: $166,000 cash vs. $2.3 million liabilities
- 1962: $1 million cash and stock vs. $250,000 liabilities

In 1963, Buffett decided to cash in and sell Dempster at a hefty profit. But, as Alice Schroeder details in *The Snowball*, it was not exactly a smooth process. When Buffett posted notice that the company would be sold, "Beatrice went berserk at the thought of another new owner that might impose layoffs or a plant closing on its biggest and virtually only employer."

"The people of Beatrice pulled out the pitchforks," wrote Schroeder. "Buffett was shocked. He had saved a dying company. Didn't they understand that? Without him, Dempster would have gone under. He had not expected the ferocity, the personal vitriol. He had no idea that they would hate him."

It all ended happily enough — with the town raising enough money to purchase Dempster and Buffett's partnership nearly tripling its money on an investment that had one foot in the grave just a year earlier.





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On paper, it looked like a walk-off home run for Buffett. But pulling Dempster out of the fire left scars on the young investor that, while painful, nevertheless prepared him to paint his masterpiece with Berkshire Hathaway.

*Harry Bottle and Warren Buffett sign over Dempster Mill to its new owners in 1963*

I can almost picture Warren Buffett sitting in his office in 1963 for a postmortem of the whole Dempster Mill affair and jotting down three key lessons. Lessons that he would have the chance to apply just a couple of years later with Berkshire Hathaway...

**(1) Don't throw good money after bad**

One lesson that Buffett didn't learn was that you're only supposed to take a free puff from a discarded cigar butt — not buy the whole thing.

In 1965, his penchant for super-cheap stock once again left his partnership in control of a dubious outfit — this time a failing New England textile concern called Berkshire Hathaway.

The dying domestic textile industry would not appear to be fertile ground from which a business empire would grow, but Buffett wrestled Berkshire's costs under control and produced two unusually profitable years in 1965 and 1966. And, thanks to some large tax-loss carry-forwards, these profits were essentially tax-free.

Like with Dempster, this windfall was not reinvested into the company's subpar normal operations — but, instead, parked in marketable securities. Which soon provided the capital



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to purchase game-changing acquisitions like National Indemnity and The Illinois National Bank and Trust Co. of Rockford.

And the rest, as they say, is history.

**(2) Look for .400 hitters**

There are some aspects of business that Buffett would rather avoid, thank you very much. Like firing employees or getting down into the trenches on a turnaround situation. Buffett's experience with Dempster clarified — once and for all — that he was much happier allocating capital from his desk at Kiewit Plaza than actually running a company on a day-to-day basis.

The difference between Harry Bottle and Dempster's previous leadership must have been a eureka moment for the young investor about the importance of management.

If he had the right person in place to sweat the day-to-day details — with little to no supervision — Buffett's life would be so much simpler.

It was no surprise, then, that he soon added superstar CEOs like Jack Ringwalt of National Indemnity and Eugene Abegg of Illinois National Bank to the Berkshire pantheon — and has since continued to place a great emphasis on only acquiring companies that come with an exceptional manager in tow.

"We subcontract all of the heavy lifting in this business to the managers of our subsidiaries," says Buffett. "In fact, we delegate almost to the point of abdication."

**(3) Some things are worth more than money**

Warren Buffett's decision to keep Berkshire Hathaway's beleaguered textile operations — despite being awash in red ink — running for so many years never made much business sense. Outside those early profitable years, it was a constant drain on the company's earnings and rarely showed any signs of life.

Any other business titan would have shut it down in short order.

But the Berkshire textile plants in small-town New England held the same kind of local significance as the Dempster factory did to Beatrice: the major source of employment for an entire downtrodden region.

I don't think there's any doubt that Buffett's harrowing experience as Public Enemy #1 in Beatrice led to his decision to keep Berkshire's textile operations going for twenty years after





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he took over. (Everything has its limits, though, and he eventually had to shut down the mills in 1985. By then, nobody could possibly blame him.)

You can still see the vestiges of this lesson today, as Buffett freely admits that he's willing to hang onto mediocre subsidiaries simply because he likes working with their managers or because he enjoys owning that particular company.



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# INVESTMENT IDEAS

**A fixed-income strategy to benefit from Fed interest-rate cuts (from WisdomTree Insights)...**

**Key Takeaways**

- With political uncertainty hovering over the investment landscape, we recommend focusing on the issue that arguably has more clarity: Fed rate cuts.
- The barbell strategy offers investors flexibility, balancing ultra-short/short positions with longer-duration bonds to maintain flexibility and take advantage of income opportunities.
- Our in-house barbell strategy uses our **Floating Rate Treasury Fund (USFR)** for the ultra-short/short position and our **Yield Enhanced U.S. Aggregate Bond Fund (AGGY)** for the duration counterweight.

The news of President Biden dropping out of the presidential race has no doubt created a whole new layer of uncertainty in the market backdrop. Interestingly, the spotlight is always on who is going to become President, but in reality, it's not that cut and dried. Indeed, equally important is which party is going to control the two chambers of Congress. With this much uncertainty hovering over the investment landscape, we recommend focusing on the issue that arguably has more clarity at this point: Fed rate cuts.

In this first of a series of Money in Motion blog posts, I want to discuss how investors should be looking to play rate cuts in their fixed income portfolios. While getting to the first rate cut has not been a smooth ride (and we're not even officially there yet), it does appear that Powell & Co. are getting more confident in such an easing move occurring at the September Federal Open Market Committee meeting.

However, what this rate cut cycle will ultimately look like is also an important consideration. At this point, the Fed seems to be gravitating toward a policy that remains restrictive, but not as restrictive as what is currently in place. In other words, inflation has made enough progress toward their 2% goal, so why not take the foot off the brake pedal a bit?

Whether or not this potential easing cycle takes on more momentum will depend a great deal on the labor market setting. If the unemployment rate holds steady to modestly higher, then





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rate cuts will likely not be that aggressive. Conversely, a visible weakening in labor market conditions combined with continued disinflation will no doubt lead to a more active rate-cutting policy.

So, how does an investor prepare for these possible monetary policy scenarios? With the time-tested barbell strategy. By using this approach, investors are afforded flexibility to begin adding duration in a deliberate fashion while still taking advantage of the income available with less volatility in the ultra-short/short portion of the inverted yield curve.

The WisdomTree in-house barbell strategy uses our **Floating Rate Treasury Fund (USFR)** for the ultra-short/short position and our **Yield Enhanced U.S. Aggregate Bond Fund (AGGY)** for the duration counterweight. I recently blogged about the "still" inverted Treasury (UST) yield curve and how the 3-month/10-Year differential remains well into negative territory to the tune of over -110 basis points, as of this writing. With UST Floating Rate Notes being referenced to the 3-month weekly T-bill auction, one can take advantage of what the negative yield curve will more than likely continue to offer even when rate cuts begin. The "adding duration" aspect is designed to not only begin locking in yield outside of shorter-dated maturities, but also offers the ability to try and take part in a bond market rally if rates reverse course and fall again.

For investors who would prefer more of a "pure" rate play and focus only on U.S. government securities in their barbell, we recommend considering a solution in our Treasury suite of Funds; the WisdomTree 7-10 Year Laddered Treasury Fund (USIN). This Fund would represent the "adding duration" aspect to the barbell and serve as the tool to lock in yield while potentially benefitting from a decline in rates further out on the yield curve.

**Conclusion**

With uncertainty surrounding the investment landscape and Fed policy becoming front and center in the discussion as summer progresses, the barbell approach provides investors with a time-tested, flexible strategy to navigate the road ahead without making an outright rate call.



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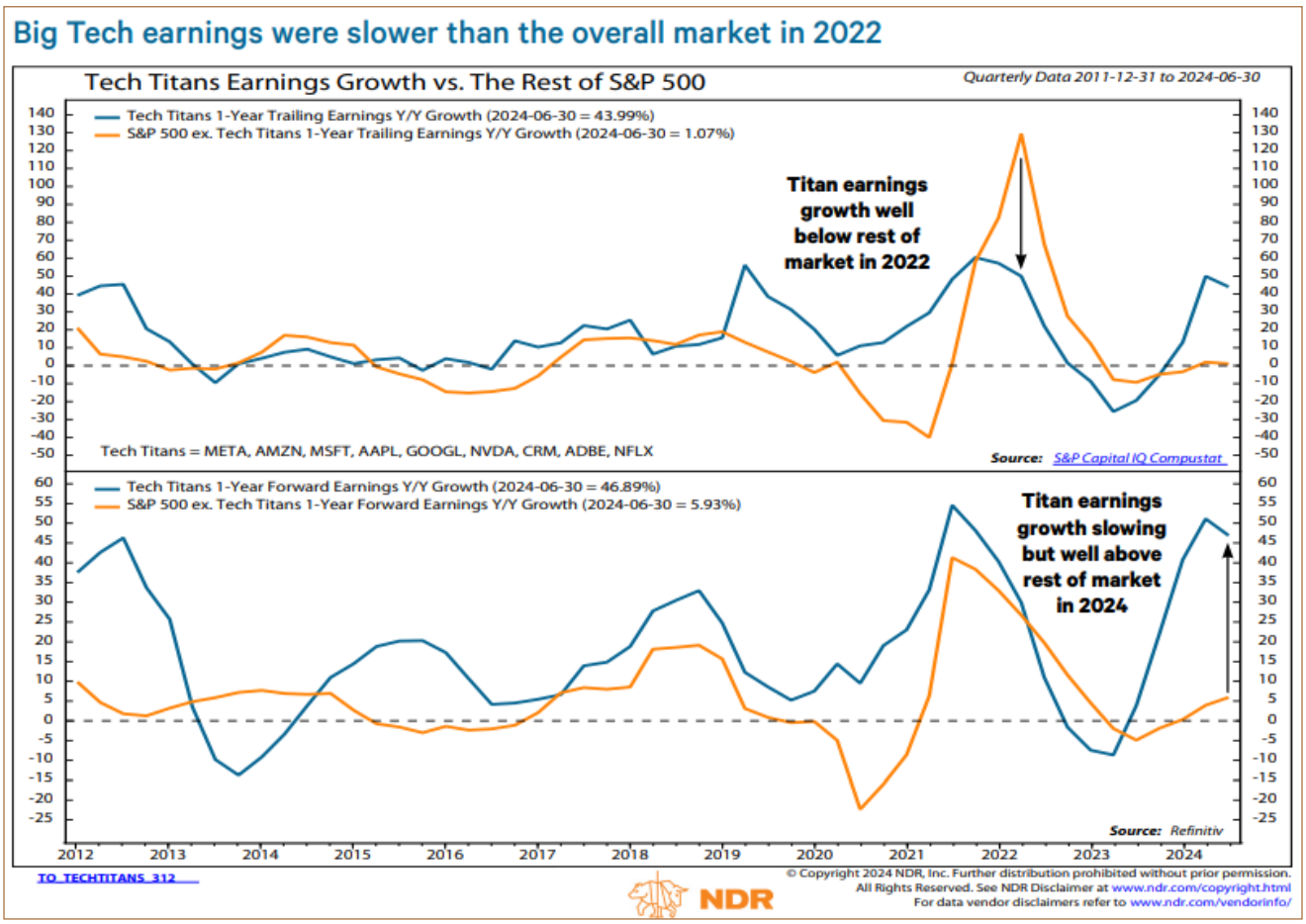
**Why this is not 2022 for Big Tech (from Ned Davis Research Signals)...**




During the COVID era, the rapid shift to remote work led to a surge in IT spending as companies moved their applications and datacenters to the cloud. This accelerated Big Tech earnings growth in 2020 and 2021, outpacing the overall market. However, as IT spending cooled in 2022, Big Tech's growth slowed even more than the broader market, leading to a significant correction.

Concerns over Big Tech's slowing growth, valuation, and capital spending continue to weigh on the mega-cap stocks. While these factors may create short-term headwinds, NDR's analysis suggests that the growth slowdown will not be as severe as in 2022, when IT spending was unwinding from its pandemic-driven surge.





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Looking ahead, NDR expects the continued demand for cloud services, particularly driven by AI development, to be a key growth driver for Big Tech. We maintain our AI overweight position, reflecting our confidence in the long-term prospects for these companies, even as they navigate near-term challenges.



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**What if you owned no U.S. stocks? (from Meb Faber Research)...**

> *"I view diversification not only as a survival strategy but as an aggressive strategy because the next windfall might come from a surprising place." – Peter Bernstein*

What is the single most universally held belief in all of investing?

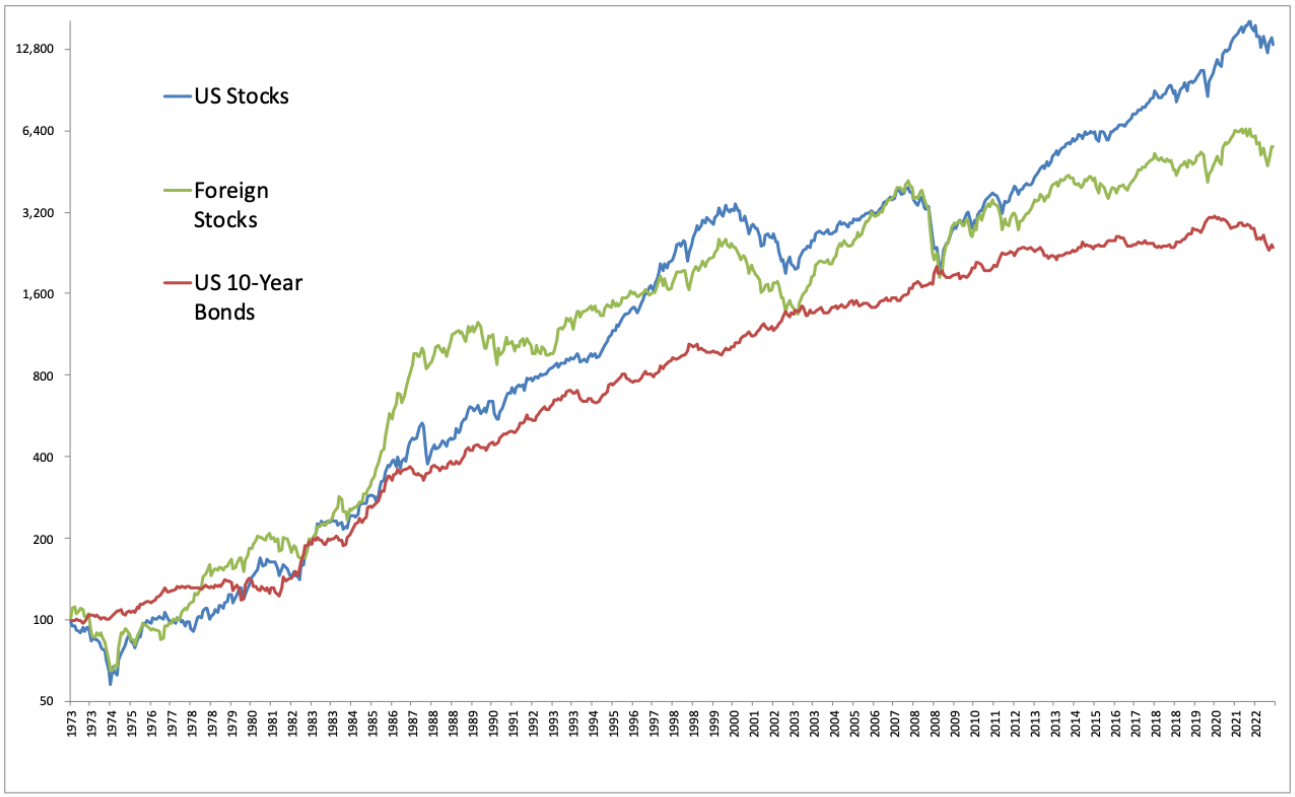
Think about it for a minute.

Our vote would be "Investors MUST own US stocks."

It has been well established that US stocks have historically outperformed bonds over time, and likewise, US stocks have outperformed most foreign stock markets as well as other asset classes.

How many times have you seen a version of this chart?

**Figure 1 – Asset Class Returns**




Source: Global Financial Data, 12/31/72 to 12/31/22





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It feels like US stocks have compounded at around 10% for just about forever, and the crazy math outcome is that if you compound an investment at 10% for 25 years, you 10x your money, and after 50 years you 100x your money.

$10,000 plunked down at age 20 would grow to $1,000,000 in retirement. Amazing!

For the past 15 years, it's been even better than that. US stocks have compounded at around 15% per year since the bottom of the Global Financial Crisis, outperforming almost every asset over this period. This outstanding performance has led to a near universal belief that US stocks are "the only game in town." Beliefs lead to real world behavior.

Now don't get us wrong, ***Stocks for the Long Run*** is one of our all-time favorite books. Indeed, US stocks probably should be the bedrock starting point for most portfolios.

But it feels like everyone is "all in" on US stocks. A recent **poll** of Meb's Twitter followers found that 94% of people said they hold US stocks. That's no surprise. But when everyone is on the same side of the same trade, well, that's usually not a recipe for long-term outperformance.

Despite US stocks accounting for roughly 64% of the global market cap, most US investors invest nearly all of their equity portfolio in US stocks. That is a big overweight bet on US stocks vs. the index allocation. (If this is you, pat yourself on the back, as US stocks have outperformed just about everything over the past 15 years, which feels like an entire career for many investors.)

We are currently at the highest point in history for stocks as a percentage of household assets. Even higher than in 2000.

Given the recent evidence, it seems like investors may be well served by putting all their money in US stocks...

So why are we about to question this sacred cow of investing?

We believe there are many paths to building wealth. Relying on a concentrated bet in just one asset class in just one country can be extremely risky. While we often hear investors describe their investment in US market cap indexes as "boring," historically, that experience has been anything but.

Consider, US stocks declined by over 80% during the Great Depression. Many investors can recall the more recent Internet bust and Global Financial Crisis where stocks declined by around half during each bear market.



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That doesn't sound boring to us.

US stocks can also go very long periods without generating a positive return after inflation or even underperforming something as boring as cash and bonds. Does **68 years of stocks underperforming bonds** sound like a lot? Most people struggle with only a few years of underperformance, try an entire lifetime!

So, let's do something that no sane investor in the entire world would do.

Let's get rid of your US stocks.

Say what?!

This move will likely doom any portfolio to failure. Investors will be eating cat food in retirement. Right?

Let's check our biases at the door and try a few thought experiments.

We'll examine one of our favorite portfolios, the global market portfolio (GAA). This portfolio tries to replicate a broad allocation where you own every public asset in the entire world. This total is over $200 trillion last we checked.

Today, if you round the portfolio allocation, it is approximately half bonds and half stocks, and roughly have US and half foreign. There's a little bit of real estate and commodities thrown in too, but lots of real estate is privately held, as is farmland. (We examine various asset allocation models in my free book ***Global Asset Allocation***.)

This portfolio could be called the true market portfolio or maybe "Asset Allocation for Dummies" since you don't actually "do anything"; you just buy the market portfolio and go about your business. Shockingly, this asset allocation has historically been a fantastic portfolio. In the recent article, "**Should CalPERS Fire Everyone and Just Buy Some ETFs?**", Meb even demonstrated that both the largest pension fund and the largest hedge fund in the US have a hard time beating this basic "do nothing" portfolio.

Now, what if you decided to eliminate US stocks from that portfolio and replace them with foreign stocks? Surely this insane decision would destroy the performance of the portfolio?!

Here is the GAA portfolio and GAA portfolio ex US stocks with risk and return statistics back to 1972.





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**Figure 2 – Asset Allocation Portfolio Returns, With and Without US Stocks, 1972-2022**

| | GAA | GAA No US |
|---|---|---|
| Returns | 9.22% | 8.90% |
| Volatility | 8.56% | 9.25% |
| Sharpe | 0.55 | 0.48 |
| MaxDD | -26.48% | -28.12% |
| % Positive Months | 67.65% | 66.34% |

*Source: GFD*

Virtually no difference?! These results can't be true!

You lose out on less than half of one percent in annual compound returns. Not optimal, but still totally fine. Anytime you reduce the universe of investment choices, the risk and return figures often decrease due to diminishing breadth.

When we have presented these findings to investors, the standard reaction is disbelief, followed by an assumption that we must have made a math error somewhere.

But there's no error. You can barely tell the difference when you eyeball the equity curves of the two series.



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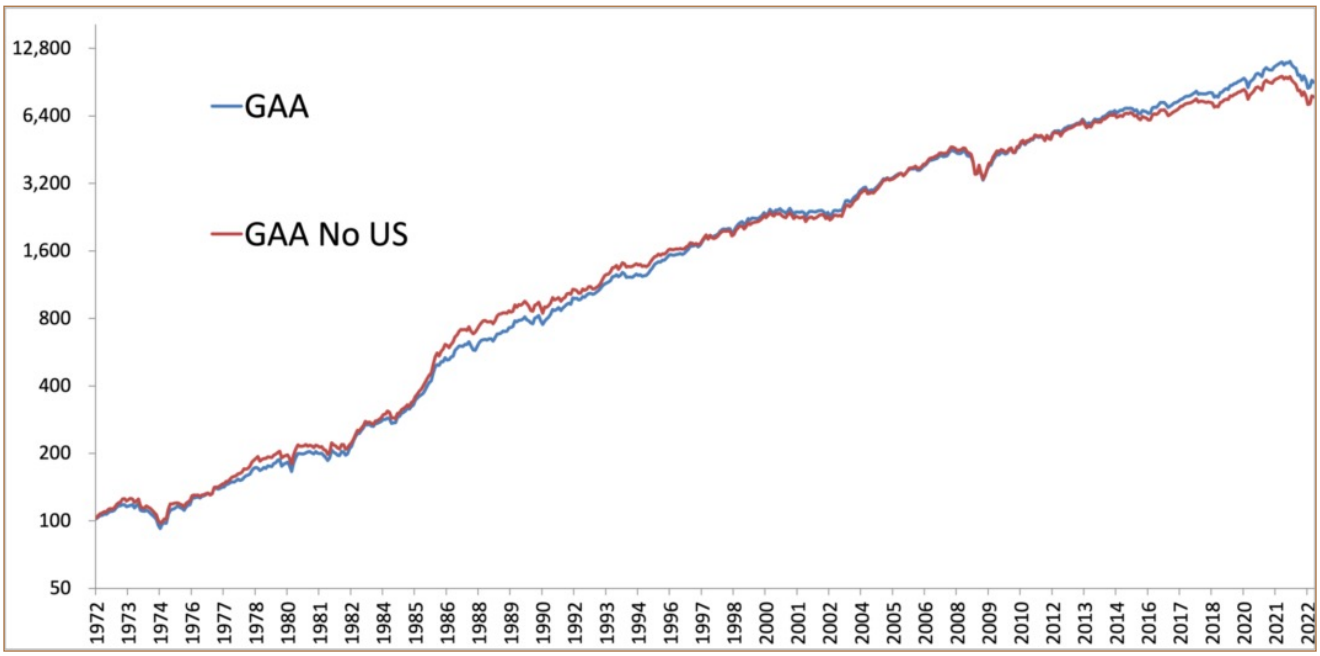
**Figure 3 – Asset Allocation Portfolio Returns, With and Without US Stocks, 1972-2022**




*Source: GFD*

If you zoom out and run the simulation over the past 100 years, the results are consistent – about a 0.50% difference.

You likely don't believe us, so let's run another test.

Do you remember the old Coke vs. Pepsi taste tests?

Let's run the investment equivalent to see just how biased you are.  Below are two portfolios. Which would you prefer?





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**Figure 4 – Asset Allocation Portfolio Taste Test, 1972-2022**

| | "Coke" | "Pepsi" |
|---|---|---|
| Returns | 10.43% | 10.36% |
| Volatility | 15.39% | 12.82% |
| Sharpe | 0.39 | 0.46 |
| MaxDD | -50.95% | -47.34% |
| % Positive Months | 63.07% | 63.89% |

*Source: GFD*

It's pretty hard to tell the difference, right?

This may surprise you, but column A is US stocks. Column B is a portfolio made up of foreign stocks, bonds, REITs, and gold, with a little leverage thrown in. (Our friends at Leuthold call the concept the Donut Portfolio.)

Both portfolios have near identical risk and return metrics.

The surprising conclusion – you can replicate the historical return stream of US stocks without owning any US stocks.

There's no reason to stop here…

It is very simple to construct a historical backtest with much superior risk and return metrics than what you'd get investing in US stocks alone. Moving from market cap weighted US stocks to something like a shareholder yield approach historically has added a few percentage points of returns in simulations. Additions such as a trend following approach can be hugely additive over time in the areas of diversification and risk reduction. We believe that investors can achieve higher returns with lower volatility and drawdown with these additions. For more details, we'd direct you to our old **Trinity Portfolio white paper…**)



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Despite not necessarily needing US stocks, for most of us, they're the starting point. They're nice to have but you don't HAVE to own them, and certainly not with the entirety of your portfolio.

As the US stock market is showing some cracks while trading near record valuation territory, maybe it is time to reconsider the near universally held sacred belief: "You have to be all in on US stocks."





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**Japanese stocks are relatively cheap again (from Markets & Mayhem via X)...**

Japanese stocks are trading at a reasonably low PE of 13.17 after the recent drawdown

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**Struggling coffee giant Starbucks (SBUX) replaces CEO Laxman Narasimhan with Chipotle CEO Brian Niccol (from CNBC)...**

Starbucks announced Tuesday it's replacing CEO Laxman Narasimhan with Chipotle

CEO Brian Niccol, sending its stock soaring 24.5%, its best day ever.

Chipotle's stock fell over 10% on the news that Niccol would leave after a successful tenure at the burrito chain.

Narasimhan's departure is effective immediately. Starbucks CFO Rachel Ruggeri will step in as interim chief executive until Sept. 9, when Niccol officially assumes the top job.

Narasimhan took over as chief executive in March 2023. The coffee giant's performance has struggled this year, hurt by weak sales in the U.S. and China, its two largest markets. In its latest quarter, Starbucks reported a 3% decline in same-store sales.

Pressure on the company mounted as it struggled to drive traffic to stores. Former CEO Howard Schultz, who handpicked Narasimhan as his successor, had written an open letter in May, weighing in on the company's issues and offering advice but never addressing Narasimhan by name. Activist investor Elliott Management had acquired a stake in the company in recent weeks.

"Elliott has been engaged with Starbucks' Board over the past two months regarding our perspectives on the Company's key issues, and we view today's announcement as a transformational step forward for the Company," Elliott managing partner Jesse Cohn and partner Marc Steinberg said in a joint statement. "We welcome the appointment of Brian Niccol, and we look forward to continuing our engagement with the Board as it works toward the realization of Starbucks' full potential."

Schultz, now chairman emeritus of the company, also backed Niccol as the new chief executive.

"I believe he is the leader Starbucks needs at a pivotal moment in its history. He has my respect and full support," Schultz said in a statement.

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**Michael Burry of *Big Short* fame loaded up on Chinese internet stocks last quarter (from *MarketWatch*)...**

Michael Burry, the investor made famous by the book and movie "The Big Short," shifted more of his portfolio into Chinese Internet stocks including Alibaba Group Holding Ltd. and Baidu Inc. during the second quarter, according to a filing with the Securities and Exchange Commission released Wednesday.

An investment in Alibaba worth more than $11 million was Burry's largest holding as of June 30. His firm, Scion Asset Management, has been building its holdings of the Chinese e-commerce giant over the past few quarters, with 155,000 shares, according to the filing. The stock was also his firm's biggest equity holding as of the end of the first quarter.

Burry also increased the size of his bet on Baidu by more than 30,000 shares, worth $2 million. He owned 75,000 shares worth $6.5 million as of June 30, the filing showed.

Meanwhile, Burry trimmed his stake in JD.com Inc., another Chinese Internet company, by 110,000 shares, worth just over $3 million, although the stock still represented one of the largest equity holdings in his portfolio.

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**Bill Ackman's Pershing Square took a stake in *Big Secret on Wall Street* portfolio recommendation Nike (NKE) (from Reuters)...**

Billionaire investor William Ackman built new stakes in sportswear company Nike and investment management company Brookfield during the second quarter, according to a regulatory filing made on Wednesday.

This marks the first new investments for Pershing Square - which oversees roughly $17 billion in assets - since the firm put money into Google parent Alphabet during the first quarter of 2023.

The filing shows that Ackman's hedge fund Pershing Square Capital Management owned roughly 3 million shares of Nike and 6.8 million shares of Brookfield on June 30. This amounts to a roughly 0.19% ownership of Nike and a roughly 0.34% stake in Brookfield. Nike and Brookfield did not immediately respond to requests for comment.

Nike's stock, which has tumbled 26% since January, rose 4% in after-market trading. Speculation had mounted hours before that an activist investor had taken a stake in the company and would begin pushing it to make improvements, some fund managers told Reuters.

The company's sales growth has slowed as it battles competition from Adidas, On, and Deckers' Hoka brand, prompting it to launch cheaper sneakers around the world while pumping up spending on marketing for the recent Olympics.

For Ackman, who cemented his fortune by pushing companies for changes, this marks a return to a company he invested in late 2017 and made a $100 million profit on.

At that time, the investment was a rare passive one for Ackman, a passionate tennis player often photographed wearing the company's shoes, shirts and wristbands. This time, Ackman has not said what his plans are for the investment.

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**Berkshire Hathaway is set to become Sirius XM's largest shareholder (from *Barron's*)...**

Warren Buffett is said to be a huge fan of the Sirius XM satellite-radio service, so it makes sense in more than financial terms that Berkshire Hathaway is set to become the company's largest shareholder.

When Buffett is driving his Cadillac, he's "never not tuned to the Channel 70 Siriusly Sinatra" station that plays American standards: songs performed by Frank Sinatra, Tony Bennett, Ella Fitzgerald, and others. That is according to Greg Maffei, CEO of Liberty Media, which has controlled Sirius XM Holdings for over a decade, speaking at Liberty Media's investor day in November.

Liberty Sirius XM, a tracking stock issued by Liberty Media for its stake in Sirius XM, is due to merge on Sept. 9 with Sirius XM. When that deal is completed, Berkshire should own about 1 billion shares of Sirius XM, or 100 million shares after a one-for-10 reverse stock split. Berkshire will hold about 29% of Sirius XM, Barron's estimates.

The Berkshire ownership stake now is complicated. It owns about 32% of Liberty Sirius XM, which in turn holds about 83% of Sirius XM. Buffett's company significantly increased its stake in the tracking stock this year.

Berkshire also owns about 3% of Sirius XM. It raised its stake by more than 90 million shares to 132 million shares in the second quarter, according to Berkshire's 13-F report, filed on Wednesday.

Berkshire's total interest in the two companies is now worth about $2.7 billion with most of it, $2.2 billion, in the tracking stock. That is a savvy way to play the situation: The tracking stock has long traded at a discount of 25% or more to Sirius XM, making it a cheaper way to own the company.

Some Berkshire watchers think the Sirius XM investments are overseen by Berkshire investment manager Ted Weschler, who is believed to be close to Maffei, Liberty Media's CEO. Weschler and another manager, Todd Combs, together run about 10% of Berkshire's $300 billion equity portfolio, often making investment decisions independent of Buffett. The Berkshire CEO handles the rest of the portfolio.

With Berkshire set to emerge as Sirius XM's dominant holder, it will be interesting to see what role it plays and whether Weschler joins the board of the company. Berkshire executives sometimes join boards on companies in which it is invested. Buffett, for instance, has been on the boards of Coca-Cola and Kraft Heinz, two sizable Berkshire equity investments.

**Continue reading here** *(subscription may be required)*



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**Japan's stock market reforms are driving big changes in capital allocation (from Verdad Weekly Research)...**

Japan has been in the headlines for the carry trade unwind and unprecedented Yen volatility. But these wild market moves should not distract investors from the very positive medium-term story unfolding: corporate Japan is currently making big changes in capital allocation and governance.

Last year, the Tokyo Stock Exchange issued a directive asking all companies with price-to-book ratios below 1x to issue a plan to get to 1x book. The reforms aimed to help Japan shake off its reputation as a "value trap." At the time of the announcement (March 2023), around 50% of companies in the Prime Section and 60% of firms in the Standard Section had a PBR <1x, reflecting a shocking degree of pessimism and inattention by investors. Over the past year, companies issued plans and posted them to the TSE's website.

We did a systematic review (methodology described below) of every plan issued by companies on the TSE's Prime and Standard Section (3,247 firms) to assess the impact of these reforms. And the answer, we believe, is that dramatic change is afoot, with widespread dividend and buyback increases. This is activism at scale—a compelling catalyst for a continued rally in Japanese stocks.

As of the end of June, based on the TSE's monthly list of disclosed companies, 50.9% of firms have disclosed plans and 9.8% are considering. The chart below summarizes the tangible actions being taken by the companies that have issued plans.





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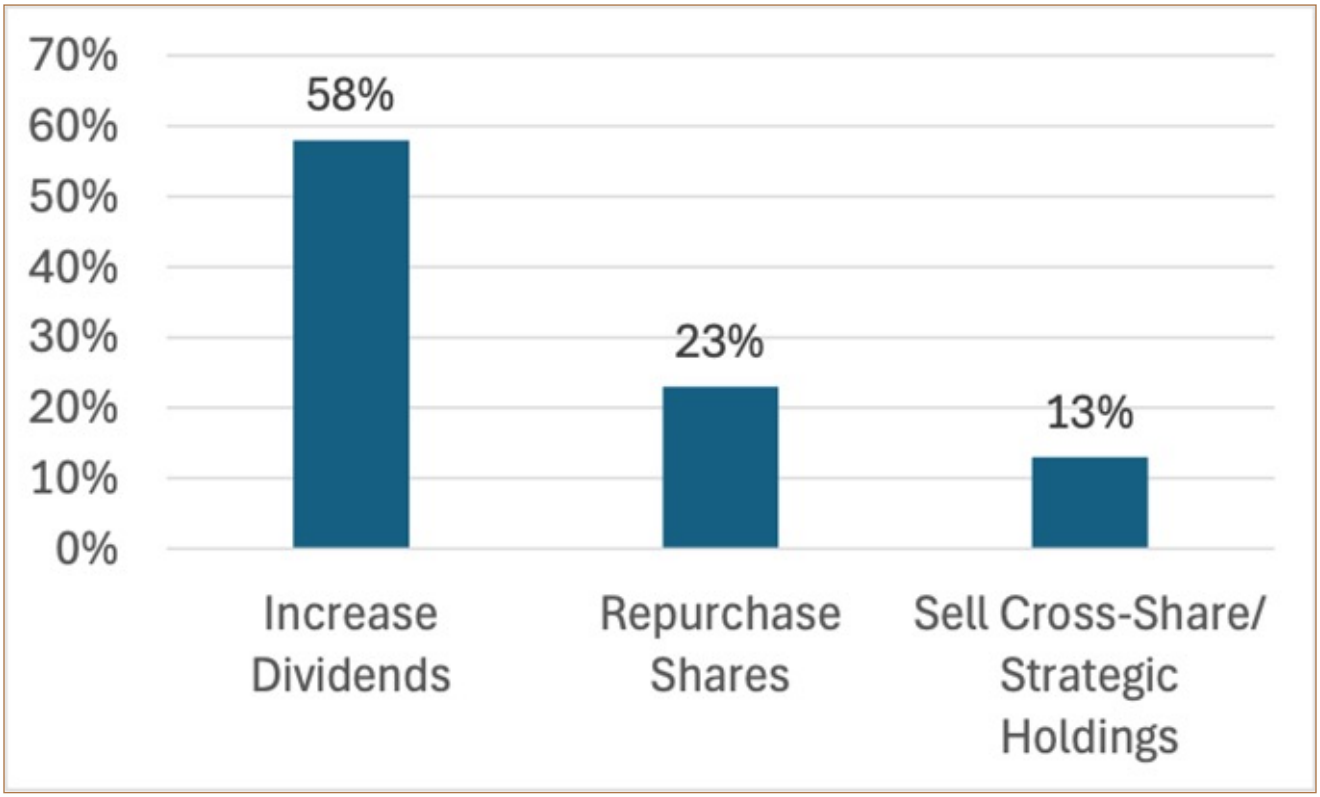
**Figure 1: Tangible Actions Taken by Companies Issuing Plans**




*Source: TSE, Verdad analysis*

The majority of companies issuing plans are increasing dividends, almost a quarter are repurchasing shares, and over 10% are selling cross-share and strategic holdings. This is truly widespread change.

We used very strict standards for judging whether a company was taking a tangible action. To do this analysis, we developed an automated AI analysis tool that scraped the disclosed action plans of the firms from various sources, including the TSE Corporate Governance Report Database, and the respective firm's financial briefings and mid-term management reports. We identified three distinct categories that represented the companies' plans to achieve 1x book: increasing dividends, selling cross-share holdings, and repurchasing or eliminating shares. Using this AI analysis tool, we were able to identify whether each company had provided a specific plan that falls within each category. All plans offered pablum about increasing shareholder value through growing the company and becoming more efficient, but we focused



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only on tangible action plans that specifically highlighted a time period or a quantitative amount (e.g., ¥1 billion of share repurchases in FY2025) that reflected an improvement over prior practices (e.g., increase dividends by ¥15 per share versus maintaining dividend payout ratios at current levels).

Looking at individual companies, we see that some of the plans reflect truly major course changes for some of Japan's smaller companies. Here are a few of the highlights:

- T.RAD Corporation (¥24 billion market cap) has announced plans to allocate ¥10 billion to increase dividends and repurchase shares.
- TOLI Corporation (¥25 billion market cap) has announced plans to allocate ¥4 billion to increase dividends and repurchase shares and generate another ¥2 billion by selling cross-share holdings and reducing assets.
- Neturen (¥39 billion market cap) has announced plans to repurchase shares worth around ¥6 billion and allocate more than ¥4.6 billion to dividends by 2026.
- NPR-Riken (¥72 billion market cap) has announced plans to repurchase shares worth ¥10 billion and generate ¥3 billion by selling cross-shares and reducing assets.
- Nippon Seiki (¥82 billion market cap) has announced plans to allocate ¥25 billion to increase dividends and repurchase shares from 2025 to 2027.

These changes appear to be driving stock market performance. We looked at the percent change of the stock price of companies between March 31, 2023, which is when the TSE made their announcement, and June 30, 2024. We show the results below.





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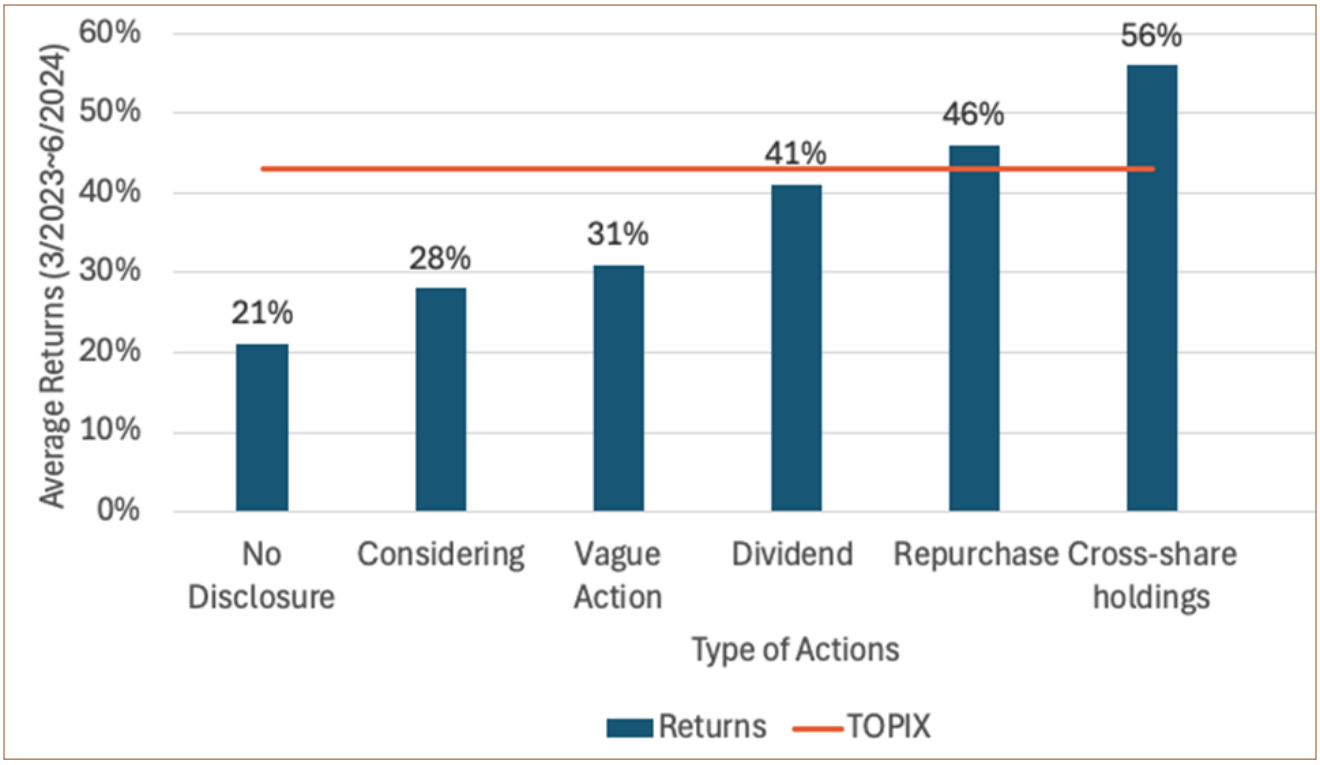
**Figure 2: Stock Price Reaction to Corporate Reform Plans**




*Source: Capital IQ, Verdad analysis*

Firms that have made an effort to lay out a specific and tangible action plan to reach 1x book have experienced a significant rise in their stock prices since the TSE announcement, more than double compared to companies that haven't disclosed or are still considering doing so. We can see that the market has generally reacted positively to the companies' disclosed plans and that the TSE's "name and shame" tactic is working so far. It seems like whether the Japanese stock market continues to build on its momentum depends on the willingness of companies to be transparent about and responsive to the TSE's request to reach 1x book.

The Nikkei surpassed its 1989 peak of ¥38,915 in March of this year. If the momentum from these reforms continues, Japan's market could have a long way to run.



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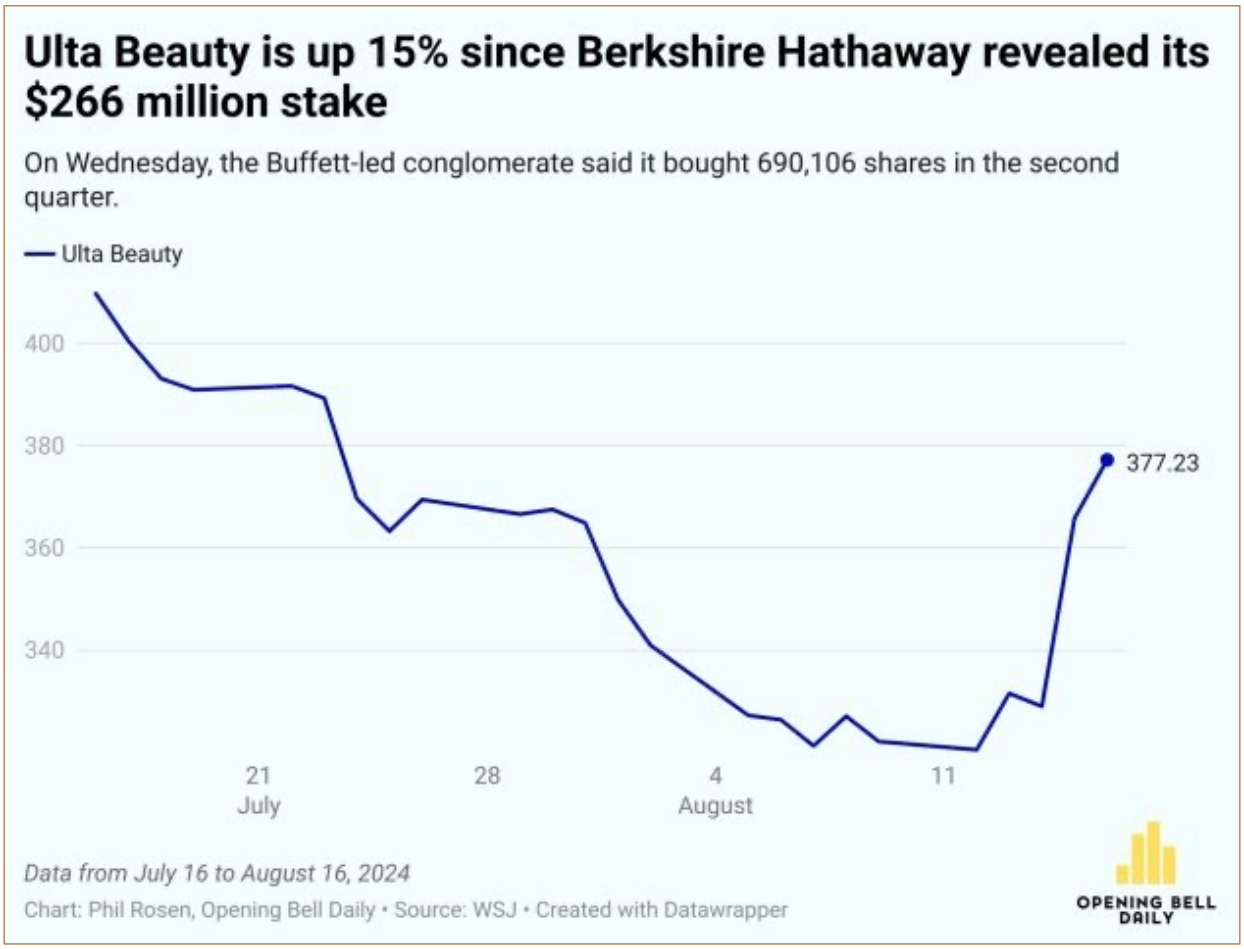
**What to know about Warren Buffett's $266 million bet on Big Secret portfolio recommendation Ulta Beauty (from Inc.)...**

The stock at hand is Ulta Beauty. On Wednesday, Berkshire Hathaway revealed in a regulatory filing that it purchased 690,106 shares of the cosmetic brand in the second quarter, worth about $266 million.

Shares of Ulta Beauty have climbed about 15 percent since Buffett's conglomerate disclosed its position.




Similar to Sephora, Ulta Beauty is a makeup retailer that sells cosmetics at a broad range of prices. Both stores allow customers to sample products without asking an employee for help like you'd have to do in a department store.





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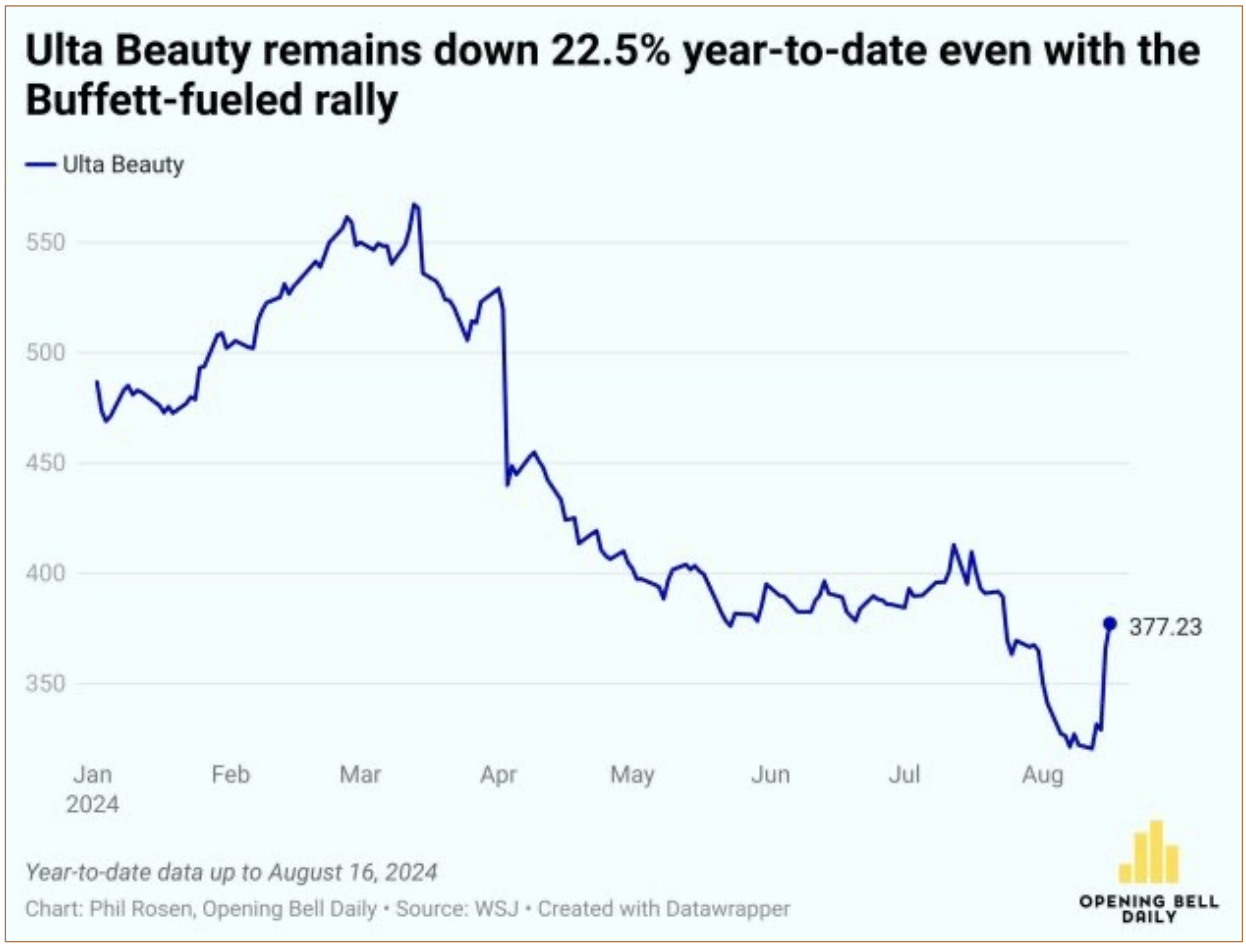
The underlying business seems just as enticing. BMO data cited by The Wall Street Journal shows Ulta has nearly 15 percent operating margins and its top-line growth rate has compounded at 11 percent annually for the past five years.

That said, investors haven't given the stock much attention this year. In March, Ulta executives missed Wall Street earnings expectations and the stock has struggled ever since.

Even with the Berkshire-fueled rally last week, Ulta remains down 22.5 percent in 2024.




In any case, what makes Berkshire's bet on Ulta intriguing is how it's arrived in the thick of recession fears.



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Specifically, it's made me think about the so-called lipstick indicator. The concept suggests consumers will buy more affordable luxury items--like lipstick--during economic downturns and when money is tight.

Whether we're in one already or if one's waiting around the corner is anyone's guess. Volatility looks tamer now than in July, but with a presidential election and Fed policy decisions looming that could change in an instant.

It was only a couple of weeks ago, though, that economists were panicking and calling for emergency policy action.

To be clear, the lipstick indicator is more anecdotal than scientific. Legend has it that in 2001, Estée Lauder chairman Leonard Lauder said he observed rising lipstick sales during recessions. Some economists have noted that the rule is hard to prove, given the limited historical data surrounding lipstick.

Either way, there's something notable about history's greatest investor betting on a cosmetic company right as recession jitters return to markets. Lipstick indicator aside, that is not nothing.





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**A tiny U.S. cannabis company with a huge potential bullish tailwind (from Mindset Value)...**

The great unlock of value for Glass House (OTC: GLASF) has always been interstate commerce and being allowed to sell its high-quality, low-cost flower outside the state of California. Right now cannabis businesses cannot legally sell cannabis products across state lines. I've interviewed a law professor and believe like he does that these restrictions are unconstitutional, but it hasn't mattered.

The last few months, I have been wondering if I was wrong that interstate commerce could come sooner than expected, and that maybe it is far off in the future and it doesn't matter. But what if I'm not wrong and interstate commerce is a mere sixteen months away?

Glass House dropped a bombshell on investors and the industry in their second quarter earnings release that I'm not sure has been properly digested yet. Glass House is considering producing Federally legal hemp flower to be sold nationally and even potentially direct to the consumers with its new greenhouse expansion.

For background, hemp, as long as it is grown on a USDA certified farm and harvested with 0.3% THC or less, is federally legal and any cannabinoid derived from that hemp is not on the controlled substances act. All of this is straight from the 2018 Farm Bill. It's a bit complicated and frankly absurd (remember I love the absurdity of cannabis laws and regulations because they are increasingly untenable), but the Atlantic put it best when it wrote that Congress Accidentally Legalized Weed in 2018.

I'm not going to get further into the weeds on this, but I HIGHLY recommend you listen to or watch my latest quarterly review of Glass House earnings with CEO Kyle Kazan, President Graham Farrar and CFO Mark Vendetti.

Why is hemp suddenly so important to Glass House? The company is only using approximately 40% of its capacity of cannabis production and is stuck selling cannabis for $500 a pound in California, when prices in New Jersey go for $3500 a pound and $2500 a pound in Illinois. If you run some simple math and even with very conservative pricing, Glass House could produce boatloads of free cash flow in an interstate commerce scenario with its facility at full capacity.

I had the audacity during our last quarterly review to wonder if Glass House was becoming boring, but boy was I wrong. In sixteen months, if Glass House is selling hemp flower in Texas and/or other states, everything will change, but most importantly for Glass House's shareholders, so will the stock price.

I hope you enjoy the interview. **Here it is on Youtube**.



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**A contrarian thesis for North American residential real estate (from Fallacy Alarm)...**

Remember how I told you about the embarrassment test for vetting an investment idea? Imagine yourself in a social setting with strangers or at least with people you are only loosely acquainted with. It could be a company event at your spouse's firm or your friend's birthday party. You find yourself in a group of 5-10 people who have started to discuss their latest investment ideas. It's clear that your conversation partners are not newbies. They have invested for many years and have developed strong opinions that are reasonably well supported. Some may even do it professionally. What opinion of yours could you possibly throw in that you are hesitant about because you would be afraid to earn laughter and irritation? The answer to this question is often a strong indicator for something that you should probably investigate further because it is very promising. It's important that you choose something where you can actually make a fundamental case. Don't just be contrarian for the sake of it. ;)

You know what my response these day would likely be? Real estate. North American residential real estate to be precise, but some of my arguments pertain to real estate generally. What reactions do you think I would get? Probably something like "With this lack of affordability? With these prices and interest rates? Right into the lagging effects from ultratight monetary policy? Against the political current that is on a vendetta against landlords? Are you insane?"

**TLDR Summary**

- Scarcity-based investing is en vogue because monetary authorities have lost credibility subsequent to their experiments in the 2010s and the subsequent worst inflation shock in decades. It's why the global crypto market cap has swollen to $2tn.
- In such an environment, real estate should do well. After all, it's the epitome of scarcity. The amount of living space in safe neighborhoods with amenities and access to job opportunities is limited, at least within reasonable time frames. It should provide attractive returns and protection from further monetary debasement.
- But has completely fallen out of favor. Investors hate this asset class as much as they did at the peak of the GFC. That's obviously when a debt-fueled bubble burst and the economy drove over a demographic cliff. Incomparable to today. When Energy was equally hated in the fall of 2020, its US sector ETF tripled afterwards in two short years.





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- Aside from simply fading the crowd, it's hard to make sense of this hate from a fundamental perspective. When Bitcoin rises, it's celebrated for its scarcity. When home prices rise, they are reprehended for their lack of affordability. Double-standards if you ask me.
- Real estate's fall from grace has to be viewed in historical context. It caught a bid in the 2010s because interest rates were manipulated to zero. Income investors looked for alternatives and some found it in real estate. Others looked in dividend stocks or short volatility bets. The revival of rates have made them abandon these proxy assets.
- To many people, the risk return profile of real estate does not appear compelling. Even if lower rates lift valuations, they would likely come with economic weakening which would hurt rents. Bonds don't have that problem which is why their portfolio allocations are going through the roof. And inflation is not deemed a positive for real estate because it would come with a corresponding increase in rates that would hurt valuations. It's considered a lose-lose situation.
- There is opportunity in this one-sided assessment. In the US, economic growth will likely exceed expectations because private sector finances are very strong. This causes upside potential in rents. A hard landing favors bonds. A soft landing favors real estate.
- In addition to that, US and Canadian residential real estate markets exhibit a structural supply/demand imbalance which will have to be reflected in prices after a rate normalization revives transaction activity. Both countries have been building way less homes than they should given immigration flows and demographic conditions. This is particularly true as changed consumer preferences are rendering some of the existing housing supply inadequate.
- Canada in particular will be a special case for two reasons. Firstly, its interest rates will likely drop much faster than in the US because household balance sheets are more leveraged and leveraged with shorter duration which makes households more vulnerable to rate hikes. The BoC should have never followed the US to 5% and will have to walk back this mistake. Secondly, as a % of its population, Canada's population is much stronger than the US and it doesn't have a national infrastructure to distribute newcomers evenly throughout the country. This exacerbates the shortage issue.

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**Lionsgate: A bond arbitrage opportunity (from Under the Radars)...**

Lionsgate's ongoing split into two companies, Lionsgate Studios and STARZ, may offer bond investors an attractive arbitrage opportunity. In May, Lionsgate listed its studio division as a separate company, with STARZ retaining an 87% ownership stake.

Following the split, the $715 million 5.5% bonds due 2029 were divided between the two companies. This has resulted in a significant spread in their trading prices, creating a potential arbitrage situation for relative value investors.

According to Bloomberg, the $389m 5.5% senior unsecured notes issued by Lions Gate Capital Holdings 1 (Lionsgate Studios) are currently trading at 90.6, yielding 7.9%. Meanwhile, the USD 332m 5.5% notes held by Lionsgate Entertainment (STARZ) are trading at 66.6, yielding 16.0%.

This discrepancy in yields suggests that there may be an opportunity to profit by buying the bonds held by STARZ and simultaneously selling the bonds issued by Lionsgate Studios.

The bonds remaining in the direct-to-consumer streaming business STARZ offer compelling value. Here's why:

**Debt Reduction:** A substantial portion of the STARZ debt will be transferred to the studio business, where the primary collateral resides.

**Profitability:** Lionsgate Entertainment (STARZ) retains 87% ownership of Lionsgate Studios. With a proven track record of profitability and cash generation, the spread between the two bonds seems unjustified.

| Lionsgate Entertainment (STARZ) | Lionsgate Studios |
|---|---|
| **FY 25 EBITDA:** $201m (E) | **FY 25 EBITDA:** $311m (E) |
| **Net Debt:** $714 | **Net Debt:** $2396 |
| **Net Debt to EBITDA:** 3.5 | **Net Debt to EBITDA:** 7.7 |
| **YTM:** 16.6% | **YTM:** 7.9% |
| **OAS:**1228 BPS | **OAS:** 429 BPS |

**Deleveraging Strategy:** Management has indicated a commitment to reducing debt levels at STARZ, which would improve credit quality and lower borrowing costs.

These factors collectively suggest that the current yield spread may narrow to a more moderate level once the separation is complete and the capital structure becomes more transparent to other investors.





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Additional Considerations:

Market Liquidity: The market for these bonds may be illiquid, making it difficult to buy and sell them at the desired prices.

Transaction Costs: Transaction costs, such as brokerage fees and taxes, can erode the potential profits from an arbitrage trade.

Covenants: The STARZ business is vulnerable to priming risk due to its covenant-light bonds. This means that new debt that takes priority over existing debt could be issued.

To conclude, Lionsgate Entertainment's (STARZ) 2029 bonds appear undervalued. Despite a lower leverage ratio of 3.0x and significant opportunities for risk reduction, these bonds are trading at a substantial 870 basis point spread compared to similar debt. I anticipate a significant price appreciation once the separation is complete and the market has a clearer understanding of the capital structure post-split.



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**What some of the world's best investors are buying – and what you need to know before doing the same (from Special Situation Investing)...**

My cohost and I have learned much about investing from Mohnish Pabrai. He is an ardent student of Warren Buffet and Charlie Munger and himself a successful value investor. He is also a vocal advocate of cloning.

In 2017, he tweeted: "Shameless cloning. The way to wealth! What could be simpler?"

In the context of investing—as opposed to biology—cloning is the act of making an investing decision because another investor did so. For example, maybe some investors recently cloned Berkshire Hathaway's decision to buy Ulta Beauty.

**The Good the Bad and the Ugly of 13Fs**

One common way investors clone ideas is by tracking the buys and sells recorded in 13F filings. These quarterly filings are required by the SEC for institutional investment managers with at least $100 million in assets under management. Such filings provide a snapshot into these investors' portfolio holdings. Here's how Investopedia explains 13Fs:

- Congress created the 13F requirement in 1975. Its intention was to provide the U.S. public with a view of the holdings of the nation's largest institutional investors. Lawmakers believed this would increase investor confidence in the integrity of the nation's financial markets.
- Firms that are considered institutional investment managers include mutual funds, hedge funds, trust companies, pension funds, insurance companies, and registered investment advisors.
- Because 13F filings provide investors with a look at the holdings of Wall Street's top stock pickers, many smaller investors have sought to use the filings as a guide for their own investment strategies. Their rationale is that the nation's largest institutional investors are not only presumably the smartest, but their size also gives them the power to move markets. So investing in the same stocks—or selling the same stocks—makes sense as a strategy.

While paying attention to what top investors are doing can be helpful, and perhaps lucrative, it can also be dangerous.

To be fair, that same Investopedia article goes on to list four key issues with 13F filings—unreliable data, time of reporting, herd behavior and an incomplete picture.





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### Unreliable Data

I don't have any first-hand experience with this "issue" but it's always a factor to keep in mind. This is particularly applicable when using aggregators such as dataroma.com. One can always read the 13Fs directly.

### Time of Reporting

A commonly known caution about 13Fs is that managers are required to make their filings within forty-five days after the close of each quarter. This means that information contained in the filings could be as much as four months outdated. Many managers chose to report as late as possible and thus when the file drops their portfolio could technically be completely different. This is a caution to any investors who blindly clone.

### Herd Behavior

This one is interesting. Given that the holdings of many top investors are made freely available, as you might expect, investors large and small have the tendency to copy. This can lead to a concentration in certain companies and, mostly small retail investors, are usually late to the party. For example, look at the image below from dataroma depicting the top ten most owned stocks among the superinvestors the site follows:

| Top 10 most owned stocks | Top 10 stocks by % |
|---|---|
| GOOGL - Alphabet Inc. | MSFT - Microsoft Corp. |
| MSFT - Microsoft Corp. | BRK.A - Berkshire Hathaway CL A |
| GOOG - Alphabet Inc. CL C | GOOG - Alphabet Inc. CL C |
| META - Meta Platforms Inc. | AMZN - Amazon.com Inc. |
| AMZN - Amazon.com Inc. | GOOGL - Alphabet Inc. |
| V - Visa Inc. | META - Meta Platforms Inc. |
| BRK.B - Berkshire Hathaway CL B | BRK.B - Berkshire Hathaway CL B |
| AAPL - Apple Inc. | V - Visa Inc. |
| UNH - United Health Group Inc. | CVNA - Carvana Co. |
| MA - Mastercard Inc. | JOE - St. Joe Co. |

*Source: dataroma.com*

Google, Microsoft, Meta, Amazon, Visa, Berkshire Hathaway, Apple, United Health and Mastercard make up the list. The reasons these investors bought into these companies in mass may not be applicable today or they may have been the best companies with enough



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available float or they could have been bought for a reason that is totally different from any other investor. Blindly joining the herd can be dangerous.

### An Incomplete Picture

This issue with 13Fs is related to the previous. In addition to only providing a snapshot-in-time picture of an investor's holdings, these filings also might not be the entirety of their investments. Case in point is Mohnish Pabrai himself. While his current 13F only displays ownerships in a handful of coal producers, he has a large percentage of his portfolio outside the U.S., invested in Turkish companies. So, if one were to simply clone his U.S. holdings, they would in fact own a very different portfolio than the hero they are copying.

I was reminded of these four issues while perusing the latest quarterly 13F filings that dropped over the last couple weeks. Most of my perusing occurred on dataroma.com which is a site that aggregates the 13F filings of the top value-oriented investors in an easy-to-consume format. But even with all those cautions, such perusing is often worth the time because 13Fs still offer interesting insights and can be a productive place to hunt for new investing ideas—if used correctly.

### A Worthy Example

Mohnish Pabrai offers a great example of how investors should approach using 13Fs.

As previously mentioned, Pabrai's current 13F filing contains only coal producer stocks—Alpha Metallurgical Resources, Arch Resources, Warrior Met Coal and CONSOL Energy.

Mohnish Pabrai - Pabrai Investments

Period: Q2 2024
Portfolio date: 30 Jun 2024
No. of stocks: 4
Portfolio value: $232,830,000

Holdings | Activity | Buys | Sells | History

| History | Stock | % of Portfolio | Recent Activity | Shares | Reported Price* | Value | Current Price | +/- Reported Price | 52 Week Low | 52 Week High |
|---|---|---|---|---|---|---|---|---|---|---|
| ≡ | AMR - Alpha Metallurgical Resources Inc. | 54.09 | Add 11.03% | 448,960 | $280.53 | $125,947,000 | $234.35 | -16.46% | $185.99 | $452.00 |
| ≡ | ARCH - Arch Resources Inc. | 25.66 | Add 179.66% | 392,388 | $152.23 | $59,733,000 | $126.88 | -16.65% | $120.19 | $186.37 |
| ≡ | HCC - Warrior Met Coal Inc. | 12.71 | Add 0.16% | 471,519 | $62.77 | $29,597,000 | $60.04 | -4.35% | $37.61 | $75.43 |
| ≡ | CEIX - CONSOL Energy Inc. | 7.54 | Reduce 53.00% | 172,038 | $102.03 | $17,553,000 | $97.45 | -4.49% | $75.43 | $114.30 |

*Source: dataroma.com*





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On recent podcasts, Pabrai clearly enjoys telling the story of how he got interested in coal stocks. He says it began with a prompt from a Tweet which caused him to looked up the 13F of David Einhorn, CEO of Greenlight Capital. At that time, Einhorn's second largest investment was in the coal producer CONSOL Energy. With his curiosity peaked, Pabrai dove headlong into researching CONSOL and the coal sector broadly, all in an effort to answer why Einhorn would put so much into a dirty coal company. What he discovered got him more interested and he went deeper, visiting multiple companies and even touring their mines. His research resulted in him selling all his other U.S. holdings and buying coal companies.

So even though Pabrai's quote from the beginning of this piece says cloning is easy, the work Pabrai put into cloning Einhorn tells a different tale. Clearly, from the master cloner himself, an immense amount of work should backup any act of cloning.

With that cautionary tale behind us, here are a few insights I took away from the latest drop of 13Fs.

**Filings of Interest**

Berkshire Hathaway

| History | Stock | Activity ▼ | Share change | % change to portfolio |
|---|---|---|---|---|
| Q2 2024 | | | | |
| ≡ | SIRI - Sirius XM Holdings Inc. | Add 262.24% | 96,196,301 | 0.09 |
| ≡ | LSXMA - Liberty Sirius XM Series A | Add 7.41% | 2,426,595 | 0.02 |
| ≡ | LSXMK - Liberty SiriusXM Series C | Add 6.90% | 4,516,609 | 0.04 |
| ≡ | CB - Chubb Limited | Add 4.28% | 1,109,944 | 0.10 |
| ≡ | OXY - Occidental Petroleum | Add 2.93% | 7,263,396 | 0.16 |
| ≡ | ULTA - Ulta Beauty Inc. | Buy | 690,106 | 0.10 |
| ≡ | HEI.A - HEICO Corp. CL A | Buy | 1,044,242 | 0.07 |
| ≡ | LLYVA - Liberty Media Corp. Series A Live | Reduce 1.29% | 65,330 | 0.00 |
| ≡ | LLYVK - Liberty Media Corp. Series C Live | Reduce 1.93% | 214,929 | 0.00 |
| ≡ | CVX - Chevron Corp. | Reduce 3.55% | 4,369,673 | 0.24 |
| ≡ | LPX - Louisiana-Pacific Corp. | Reduce 9.60% | 633,154 | 0.02 |
| ≡ | TMUS - T-Mobile US Inc. | Reduce 10.87% | 570,000 | 0.04 |
| ≡ | FND - Floor & Decor Holdings | Reduce 16.78% | 802,130 | 0.03 |
| ≡ | COF - Capital One Financial | Reduce 21.27% | 2,651,978 | 0.13 |
| ≡ | AAPL - Apple Inc. | Reduce 49.33% | 389,368,450 | 29.29 |
| ≡ | SNOW - Snowflake Inc. | Sell 100.00% | 6,125,376 | 0.30 |
| ≡ | PARA - Paramount Global CL B | Sell 100.00% | 7,531,765 | 0.03 |

*Source: dataromoa.com*



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Let's start with the Oracle of Omaha. Two things. First, there was great excitement over "Buffett's" purchase of Ulta Beauty. Given I'd always considered ULTA a quality company, its addition to Berkshire's portfolio was not a shocker. I was not the least interested in looking at ULTA. Number one, because it's outside my circle of competence and I have no desire at the moment to work to bring it in.

And, number two, I had the words of John Huber from Base Hit Investing in the back of my mind. In a recent article, John worked though an exercise where he estimates that, out of all the US stocks, Berkshire is limited to investing in thirty to forty. This is simply because of Berkshire's size. So, just because Berkshire bought ULTA doesn't mean it's a great opportunity for investors with small amounts of capital to employ.

The second thing I found useful as a data point from Berkshire's filing was that it continues to buy more Occidental Petroleum. I don't personally own OXY, but I own two companies of which OXY is a customer, Texas Pacific Land and Natural Resource Partners. A strong OXY is good for both of those investments.

**Himalaya Capital Management**

Li Lu - Himalaya Capital Management

Period: Q2 2024
Portfolio date: 30 Jun 2024
No. of stocks: 7
Portfolio value: $2,561,615,000

Holdings | Activity | Buys | Sells | History

| History | Stock | % of Portfolio | Recent Activity | Shares | Reported Price* | Value | Current Price | +/- Reported Price | 52 Week Low | 52 Week High |
|---|---|---|---|---|---|---|---|---|---|---|
| ≡ | BAC - Bank of America Corp. | 28.07 | | 18,081,133 | $39.77 | $719,087,000 | $38.57 | -3.02% | $24.44 | $44.44 |
| ≡ | GOOG - Alphabet Inc. CL C | 21.80 | | 3,044,000 | $183.42 | $558,330,000 | $167.42 | -8.72% | $121.32 | $193.31 |
| ≡ | GOOGL - Alphabet Inc. | 18.08 | | 2,543,300 | $182.15 | $463,262,000 | $165.60 | -9.09% | $120.07 | $191.75 |
| ≡ | BRK.B - Berkshire Hathaway CL B | 14.26 | | 897,749 | $406.80 | $365,204,000 | $446.15 | 9.67% | $330.58 | $450.50 |
| ≡ | EWBC - East West Bancorp | 7.94 | | 2,776,351 | $73.23 | $203,312,000 | $80.29 | 9.64% | $48.10 | $89.16 |
| ≡ | AAPL - Apple Inc. | 6.25 | | 759,600 | $210.62 | $159,987,000 | $225.93 | 7.27% | $163.66 | $236.96 |
| ≡ | OXY - Occidental Petroleum | 3.61 | Buy | 1,466,500 | $63.03 | $92,433,000 | $55.93 | -11.26% | $54.72 | $70.92 |

*Source: dataroma.com*





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Berkshire wasn't the only purchaser of OXY. Li Lu of Himalaya Capital Management, a long-term oriented, value investor and friend of the late Charlie Munger also bought the company.

Li Lu manages a very low turnover portfolio, so this purchase was note worthy.

**Aquamarine Capital**

Guy Spier - Aquamarine Capital

Period: Q2 2024
Portfolio date: 30 Jun 2024
No. of stocks: 14
Portfolio value: $262,557,000

Holdings | Activity | Buys | Sells | History

| History | Stock | % of Portfolio | Recent Activity | Shares | Reported Price* | Value | Current Price | +/- Reported Price | 52 Week Low | 52 Week High |
|---|---|---|---|---|---|---|---|---|---|---|
| ☰ | BRK.B - Berkshire Hathaway CL B | 21.78 | | 140,600 | $406.80 | $57,196,000 | $453.38 | 11.45% | $330.58 | $453.72 |
| ☰ | AXP - American Express | 18.52 | | 210,000 | $231.55 | $48,626,000 | $251.30 | 8.53% | $139.61 | $256.24 |
| ☰ | BAC - Bank of America Corp. | 11.63 | | 767,845 | $39.77 | $30,537,000 | $39.77 | 0.00% | $24.44 | $44.44 |
| ☰ | MA - Mastercard Inc. | 11.05 | | 65,750 | $441.16 | $29,006,000 | $466.44 | 5.73% | $358.18 | $488.60 |
| ☰ | MU - Micron Technology Inc. | 10.02 | | 200,000 | $131.53 | $26,306,000 | $102.85 | -21.80% | $62.32 | $157.40 |
| ☰ | RACE - Ferrari NV | 9.32 | | 60,000 | $407.85 | $24,471,000 | $483.94 | 18.66% | $283.21 | $484.26 |
| ☰ | BRK.A - Berkshire Hathaway CL A | 7.00 | | 30 | $612233.33 | $18,367,000 | $680329.99 | 11.12% | $502000.00 | $741971.39 |
| ☰ | MCO - Moody's Corp. | 4.33 | | 27,000 | $420.93 | $11,365,000 | $479.38 | 13.89% | $296.40 | $483.56 |
| ☰ | DJCO - Daily Journal Corp. | 1.73 | | 11,500 | $394.52 | $4,537,000 | $488.55 | 23.83% | $286.05 | $490.02 |
| ☰ | BABA - Alibaba Group Holdings | 1.30 | | 47,500 | $72.00 | $3,420,000 | $85.41 | 18.63% | $65.22 | $93.38 |
| ☰ | GOOGL - Alphabet Inc. | 1.11 | | 16,000 | $182.13 | $2,914,000 | $165.62 | -9.06% | $120.07 | $191.75 |
| ☰ | SRG - Seritage Growth Properties | 0.89 | | 500,000 | $4.67 | $2,335,000 | $4.53 | -3.00% | $3.63 | $9.87 |
| ☰ | AMR - Alpha Metallurgical Resources Inc. | 0.85 | Buy | 8,000 | $280.50 | $2,244,000 | $226.34 | -19.31% | $189.82 | $452.00 |
| ☰ | ARCH - Arch Resources Inc. | 0.47 | Buy | 8,100 | $152.22 | $1,233,000 | $124.98 | -17.90% | $116.44 | $186.37 |

Quote data provided by Intrinio

*Source: dataroma.com*

Mohnish Pabrai's portfolio changes were highlighted early in the piece, so I won't duplicate it here. Suffice it to say, it's still only coal stocks and he bought more.

But he wasn't the only buyer of coal stocks, Pabrai seemed to have rubbed off on Guy Spier of Aquamarine Capital who also initiated positions in Alpha Metallurgical Resources and Arch Resources. More attention on the coal space but still not anywhere concerning levels.



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## Scion Asset Management

| Q2 2024 | | | | |
|---|---|---|---|---|
| ☰ | BIDU - Baidu Inc. | Add 87.50% | 35,000 | 5.77 |
| ☰ | BABA - Alibaba Group Holdings | Add 24.00% | 30,000 | 4.11 |
| ☰ | FOUR - Shift4 Payments Inc. CL A | Buy | 100,000 | 13.97 |
| ☰ | MOH - Molina Healthcare Inc. | Buy | 24,530 | 13.89 |
| ☰ | HPP - Hudson Pacific Properties Inc. | Buy | 1,144,435 | 10.49 |
| ☰ | OLPX - Olaplex Holdings Inc. | Buy | 995,250 | 2.92 |
| ☰ | BCAB - Bioatla Inc | Buy | 633,959 | 1.66 |
| ☰ | REAL - RealReal Inc. | Reduce 29.21% | 412,692 | 2.51 |
| ☰ | JD - JD.com Inc. | Reduce 30.56% | 110,000 | 5.42 |
| ☰ | HCA - HCA Healthcare Inc. | Sell 100.00% | 25,000 | 8.06 |
| ☰ | C - Citigroup Inc. | Sell 100.00% | 125,000 | 7.64 |
| ☰ | PHYS - Sprott Physical Gold Trust | Sell 100.00% | 440,729 | 7.37 |
| ☰ | SQ - Block Inc. | Sell 100.00% | 90,000 | 7.36 |
| ☰ | CI - Cigna Group | Sell 100.00% | 20,000 | 7.02 |
| ☰ | AAP - Advance Auto Parts | Sell 100.00% | 85,000 | 6.99 |
| ☰ | BP - BP plc | Sell 100.00% | 175,000 | 6.37 |
| ☰ | VTLE - Vital Energy Inc. | Sell 100.00% | 125,000 | 6.35 |
| ☰ | SBLK - Star Bulk Carriers Corp. | Sell 100.00% | 250,000 | 5.77 |
| ☰ | FSLR - First Solar Inc. | Sell 100.00% | 30,000 | 4.89 |
| ☰ | SB - Safe Bulkers Inc | Sell 100.00% | 400,000 | 1.92 |

*Source: dataroma.com*

Michael Burry and Scion Asset Management's 13F was an example of a cautionary tale. In the previous quarter, Burry had bought Safe Bulkers, Vital Energy, Star Bulk Carriers, BP and Sprott Physical Gold Trust. These reflect an investment theme that I would generally espouse, specifically, hard assets. Had I blindly cloned Burry out of confirmation bias, I would have been dismayed when this latest 13 F filing revealed Burry sold 100% of these positions.





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## Oakcliff Capital

Bryan Lawrence - Oakcliff Capital

Period: Q2 2024
Portfolio date: 30 Jun 2024
No. of stocks: 10
Portfolio value: $186,988,000

Holdings | Activity | Buys | Sells | History

| History | Stock | % of Portfolio | Recent Activity | Shares | Reported Price* | Value | Current Price | +/- Reported Price | 52 Week Low | 52 Week High |
|---|---|---|---|---|---|---|---|---|---|---|
| ≡ | IBKR - Interactive Brokers Group Inc. | 19.84 | | 302,647 | $122.60 | $37,105,000 | $123.40 | 0.65% | $72.30 | $129.00 |
| ≡ | TDG - TransDigm Group Inc. | 14.64 | | 21,424 | $1277.63 | $27,372,000 | $1326.68 | 3.84% | $774.00 | $1369.58 |
| ≡ | GIL - Gildan Activewear Inc. | 12.48 | | 615,399 | $37.92 | $23,336,000 | $42.53 | 12.16% | $26.41 | $42.90 |
| ≡ | GOOG - Alphabet Inc. CL C | 11.66 | | 118,880 | $183.42 | $21,805,000 | $167.43 | -8.72% | $121.32 | $193.31 |
| ≡ | GWRE - Guidewire Software Inc. | 9.18 | | 124,435 | $137.89 | $17,158,000 | $145.82 | 5.75% | $79.96 | $153.85 |
| ≡ | NRP - Natural Resource Partners | 7.42 | Buy | 154,866 | $89.64 | $13,882,000 | $86.76 | -3.21% | $60.06 | $97.92 |
| ≡ | FNF - Fidelity National Financial Inc. | 7.14 | | 270,000 | $49.42 | $13,343,000 | $58.72 | 18.82% | $36.02 | $59.11 |
| ≡ | SGU - Star Gas Partners LP | 6.29 | | 1,105,928 | $10.64 | $11,767,000 | $11.65 | 9.49% | $9.49 | $14.11 |
| ≡ | CHTR - Charter Communications | 6.15 | | 38,474 | $298.96 | $11,502,000 | $348.73 | 16.65% | $236.08 | $458.30 |
| ≡ | LGIH - LGI Homes Inc. | 5.20 | | 108,590 | $89.49 | $9,718,000 | $112.85 | 26.10% | $84.00 | $136.89 |

Quote data provided by Intrinio

*Source: dataroma.com*

The filing by Bryan Lawrence and Oakcliff Capital particularly caught my attention because he sold 100% of Hallador Energy, a company I had highlighted in my recent piece, Rabbit Holes of Curiosity, and he instead bought Natural Resource Partners (NRP).

Over the past few months, I enjoyed listening and reading up on Lawrence and his investing style. His recent interview on the Wiser Richer Happier Podcast is the best and where I'd suggest anyone interested start.

Lawrence's purchase of NRP is encouraging because he runs a concentrated, low turnover portfolio and he invests largely with the mindset to hold for years or longer.

It's also encouraging because I know what he looks for in a company. Here's how he explains it:

I really like studying businesses. I like trying to understand what's happening in the world, and I like placing infrequent bets, investing in infrequent ideas.



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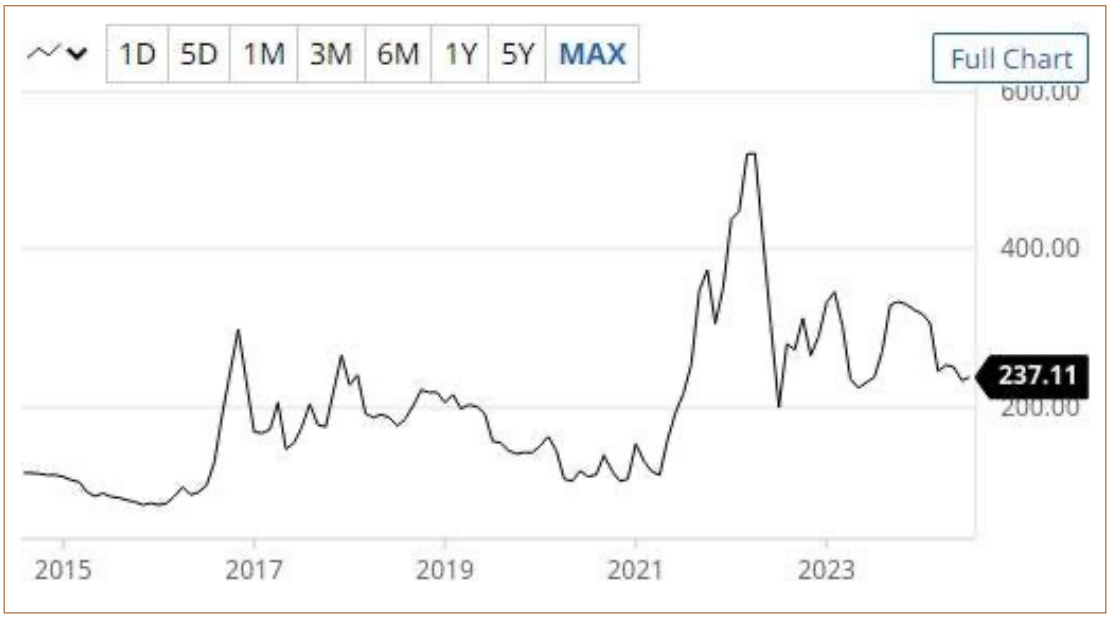
We're trying to answer six questions. Is this a business we understand? Is it a good business in the way that I just described? Is it run by a management team that thinks like shareholders, that will treat us like partners? Is it cheap, demonstrably relative to its expected cash flows? Is it trading in an attractive valuation with an attractive IRR, internal rate of return of owning it from here? Why is it cheap? Okay, can we identify the reason why we are right and the market is wrong? What's the variant perception?

While Lawrences purchase of NRP is encouraging, we clearly own the company entirely backed up by our own research. That said, I'm glad to be a co-owner with the likes of Bryan Lawrence. If you're curious how we would answer each of Lawrence's six questions, check out our other pieces on Natural Resource Partners.

On a closing note, as the chart below shows, met coal prices have fallen slightly over the past month or so and NRP's price dropped a bit. I couldn't be happier.




*Source: barchart.com*

**Conclusion**

With that, we've wrapped up this latest edition of Special Situation Investing. As always, thank you for tuning in and reading. We hope our feeble attempts at learning and sharing are useful in your own investing journeys.





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**Notable comments from recent company earnings calls (from Eagle Point Capital)...**

**Alphabet — July 23, 2024**

Alphabet may be overbuilding capacity, but believes it is worth the risk.

> I think the one way I think about it is when we go through a curve like this, the risk of under-investing is dramatically greater than the risk of over-investing for us here, even in scenarios where if it turns out that we are over-investing, we clearly -- these are infrastructure which are widely useful for us. They have long useful lives, and we can apply it across, and we can work through that. But I think not investing to be at the front here, I think, definitely has much more significant downside.

Of course all this capex will increase Alphabet's non-cash D&A expenses. Management is reducing expenses elsewhere to "make room" for elevated D&A. It's hard to imagine Buffett and Munger endorsing managing the optics of earnings like this.

> Our leadership team remains focused on our efforts to moderate the pace of expense growth in order to create capacity for the increases in depreciation and expenses associated with the higher levels of investment in our technical infrastructure.

**MBI Deep Dives (aka Abdullah Al Rezwan) observed** that Alphabet continues to spend billions of dollar on repurchases but the company's share count is hardly budging. That means most of the company's profits are acruing to employees, not owners.

> Despite buying back $15.7 Bn shares, share count only declined by 13 bps QoQ which is of course disappointing. It is not 100% clear why that's the case; Google issued 32 mn RSUs in 2Q'24 vs 33 mn in 1Q'24 and bought back 111 mn shares in 2Q'24 vs 92 mn in 1Q'24. My best guess is they also issued some contingent shares from some earlier acquisitions (Mandiant maybe?) in 2Q'24.

**Arch Resources - July 25, 2024**

Arch thinks met coal prices are unsustainably low.

> We believe that the current coking coal prices are below the marginal cost production on a global basis

They see a supply/demand imbalance as strong demand from China has not been met with increase supply from the US, Canada, and Australia.



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> The Chinese seaboard imports are on track to be up 10 million tons. And while 1/3 of that or so is sort of lower-quality volume from Russia and they're being opportunistic, 2/3 of that is higher quality seaborne. So that's a positive -- on the supply side, you've got Australia, the U.S. and Canada in aggregate, which is, of course, where all the high-quality coal comes from the seaborne market, up only about 1 million tons.

## Allison Transmission — July 25, 2024

Allison is seeing "unprecedented demand."

> Funding and spending for infrastructure projects has led to extraordinary demand for Class 8 vocational vehicles in North America. With Allison share in 2023 at roughly 80% in these locational vehicles, we are seeing unprecedented demand for our 3000 Series and 4000 Series On-Highway products.

There are two reasons. First, the infrastructure bill increased demand for vocational trucks but production remains hamstrung because of COVID.

> Vocational, if you go back to COVID and the lack of production probably suffered more than other areas. So post-COVID, as the infrastructure bill was signed and other funding was being provided, it was clear you were coming into an up cycle in terms of demand without the vehicles. So you're now working through -- the industry is working through a very soft period of vehicle production in a period of very high demand. So you have an aged fleet with very high underlying demand.

Second, during COVID, a lot of the drivers who could drive manuals retired. Labor is tight and the only people available to work don't know how to drive manuals. Companies need automatic transmissions to fix their labor problems.

> At the same time, from a labor perspective, what you have seen is through COVID, as you know, a number of retirements where you've -- the workforce has shed a number of more experienced workers and specifically drivers. So from an equipment perspective, whereas used -- some fleets could use with manuals per se. Those drivers are now retired. So you're looking at not only the shortage in vehicles coming into a pretty significant uptick in overall vehicle demand, but also a change in the demographics of the driver base. So we're seeing the combination start to drive its way through, so to speak, the market.

## O'Reilly Automotive — July 25, 2024





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O'Reilly was more upbeat about consumer health than almost any other retailers. That probably speaks to their non-discretionary products and almost counter-cyclical business.

> We still view the average consumer as relatively healthy with strong employment and wage rates underpinning the ability of our customers to invest in the repair and maintenance of their vehicles. However, we also believe we're seeing some level of conservatism in how consumers are managing their spend as they face the cumulative impact of elevated price levels and uncertainty about the broader macroeconomic conditions.

**McDonald's — July 29, 2024**

Inflation might have finally killed the $1 $2 $3 value menu. McDonald's is looking to borrow a successful program from abroad to replace it.

> Germany with McSmart, you've got Canada with McPick, you've got the U.K. with Savers menu, Australia has McSmart and also lose Change menu, France as McSpart. We have the value platform established in those markets, and there's good consumer awareness of those value platforms.

A wide price gap between food at home and food in restaurants has caused consumers to eat in more.

> We're looking at a continued gap between food at home and food away from home inflation. The gap is about 3% right now or a 300 basis point gap between the two.

While costs are up 20-40% over the last couple of years, there' is some good news. Franchisees's are in a strong financial position.

> If you actually look at gross margin in the 20 years pre-COVID, we're actually at a high right now versus those 20 years. So we feel very good about the ability of our franchisees to invest via their P&L or otherwise.

**Altria — July 31, 2024**

Vapor continues to explode in the US, but the growth is exclusively in illegal products.

> Through the first half of 2024, we estimate the category grew by approximately 40%, driven by illicit flavored disposable products which we believe now represent more than 60% of the category. We estimate pod-based volumes declined by approximately 15% in the first half of 2024. And now represents approximately 15% of category volumes.



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But don't fear, the government is here to help!

> In June, the Justice Department and the FDA announced the creation of a federal multi-agency task force, which is expected to coordinate and streamline efforts to bring all available criminal and civil tools to bear against the illegal distribution and sale of e-vapor products.

Altria thinks that the growth of illicit vapes is one of the many factors weighing on domestic cigarette demand.

> we believe that cross-category movement has been higher in recent quarters than our previously estimated range (1.5-2.5%). We estimate that cross-category movement from cigarettes primarily to illicit disposable e-vapor products contributed an estimated 2% to 3% of the cigarette industry decline over the last 12 months.

Fortunately, Altria has incredibly high margins. Management explains that the rising cost of tobacco leaf really has no impact on their margins. Fees paid to the government are their primary expense.

> We have high margins in the cigarette category as an example, it's really MSA, FET, fees like that, that are the primary cost drivers in the cigarette business.

## Wyndham Hotels — July 25, 2024

Historically RevPar has grown 2.6%, and the future should resemble the past.

> Historically, since 2000 and through 4 lodging cycles, U.S. RevPAR for the select service segments, which makes up the majority of our domestic system has grown at a CAGR of 2.6%, despite the occasional downturn. Last month, Smith Travel reaffirmed this perspective in their latest outlook, projecting 2.7% U.S. RevPAR growth in 2025 for the select service segments. We've been through similar situations before, and we're confident that the select service RevPAR will bounce back as it always has, historically.

Long term, Wyndham expects new unit growth of 3-5%. Growth should therefore total 5.6-7.6%. Buybacks and dividends will only add to that. Management thinks the stock is too cheap.

> At our current trading levels, our free cash flow yield of over 6% is the highest in the lodging sector.
>
> ...we also reaffirmed our multiyear outlook through 2026, including an adjusted EBITDA CAGR of 7% to 10% and a potential adjusted EPS CAGR in the mid-teens after capital deployment.





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## Vector Group — August 1, 2024

Vector Group sells discount cigarettes, and business is booming.

> During the second quarter of 2024 based on Management Science Associates, retail data volumes in the deep discount category increased 5.4% while industry volumes declined 10% compared to the prior year period. The deep discount segment comprised 16.3% of the overall market in the second quarter, up from 13.9% in the same period a year ago and 15.9% in the first quarter of 2024.

Dollar stores are some of the company's best performing channels.

> we've got very strong presence in both Dollar General and Family Dollar, and those kind of discount stores at the moment are performing very, very well. And our placement and the visibility that we have in those stores and the partnerships that we have are really paying dividends.

## Alpha Metallurgical Resources — August 5, 2024

AMR bought back a third of its shares since 2021. But its since paused buybacks to strengthen the balance sheet. If prices take another leg down, it may begin burning cash.

> I mean, right now, at a roughly [ $215 ] PLV, we're at the lowest point we've been in 2 years. And if you exclude, by my math, about an 11-day period in 2022, it's -- this is the lowest price in 3 years. And so, we're back into some territory we've not had to deal with for quite a while. And that's -- as long as we remain in that band, I think we're going to have to stay focused on keeping the balance sheet strong, giving us plenty of buffer because another turn down, and you could quickly go from producing some cash to producing no cash or consuming cash. And that's going to be the real indicator of when it's time for us to start jumping back into the capital returns.

Met coal prices are near the average global cost of production, but that doesn't mean prices have to go higher anytime soon.

> As far as marginal cost and the cost curves, I know there's been a lot of conversation about that. I do think that the cost curve number, the, call it, [ $200 to $225 ] zip code is probably reasonable for where the all-in cost is sitting globally. I don't think that kind of data is terribly predictive on how companies are going to behave because it doesn't take into account the relative strength of their balance sheets. It doesn't take into account



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> their ability or their desire to capture market share, while they might be losing a little bit of -- sacrificing some EBITDA. And it also doesn't necessarily take into account fixed and variable cost splits, which also become pretty important when you're looking at thinking about idling or shutting down an operation.

## CONSOL Energy — August 8, 2024

A recent PJM electricity capacity auction shows that electricity demand is indeed growing. It's not just talk or a forecast, people are putting real money behind it.

> Looking forward domestically, along with the recent heat wave, there are long-term indicators for potential growth and demand. In late July, the latest PJM 2025, 2026 capacity option settled at just under $270 per megawatt day, an increase of more than 800% compared to prices just 1 year ago.
>
> This appears to be a clear message that the supply-demand balance is tightening, a sharp increase of electric demand to meet the requirements of factories, data centers, and broader electrification needs, risk straining our electric grids and underscores the need for maintaining our existing coal fleet.
>
> These capacity auctions provide a critical revenue source for power plants in the region and lease payments aim to ensure that generators are ready to solve the grid whenever the PJM RTO needs them. As such, a significant increase of pricing in the most recent auction is a clear investment signal and could very well extend the life of coal-buyer power plants in the PJM.

CONSOL has been quite the cannibal and continues to carry on.

> Year-to-date, through the end of Q2 '24, we have spent $71 million return on free cash flow to our shareholders in the form of share buybacks. Since restarting our share repurchase program in late 2022, we've retired 6.1 million shares, or approximately 18% of our public float through June 30, 2024.

## Domino's Pizza — July 18, 2024

Domino's is a convenience business which is why fortressing works. The closer you live to a Domino's, the more likely you are to carry out.

> when you split a store, 80% of the carryout volume is incremental. And so that right away when you're splitting a territory, you're getting all these customers. Those customers,





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> they don't want to drive past 4 pizza places on their way to a Domino's. And so the more Domino's we have, the more carryout business we drive

**British American Tobacco — July 25, 2024**

BTI thinks that the normalized rate of decline in the US cigarette market is 5-7% now. That would still be a big improvement over current conditions.

> We used to see secular decline in the U.S. around 4% to 5%. I think that this high end of the range now will be as soon as things stabilize on the macroeconomic side become the low end of the range, a new range around 5% to 7%. I would say that is the best guess that we have moving forward when things start stabilizing and we see at least a minimal level of enforcement on the illegal products.

**Yum! Brands — August 6, 2024**

Yum is beginning to see an improving US consumer.

> The second quarter offered signs of improving fundamentals. For example, at Taco Bell, we've begun to see sensitivities to check management stabilize to improve from Q1 into Q2, and have witnessed year-over-year check growth led by items per transaction.

**Continue reading here**



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**Hedge fund legend Stanley Druckenmiller took significant positions in two new stocks last quarter, including a *Porter & Co. High Conviction* recommendation (from Investors Hangout)...**

Stanley Druckenmiller may not be as well known as some hedge fund billionaires, but he is a figure worth learning from when it comes to investing. A disciple of George Soros, Druckenmiller played a pivotal role in the famous bet with Soros that led to breaking the Bank of England in the early 1990s, yielding over $1 billion in profit.

As the founder of Duquesne Capital Management, Druckenmiller achieved an impressive compound annual return of 30% from the fund's inception in 1981 until its closure in 2010. Today, he continues to invest through his family office, and his investment decisions are closely scrutinized by market enthusiasts and investors alike. Druckenmiller emphasizes the importance of position sizing in his strategy, stating, "It's not whether you're right or wrong; it's how much you make when you're right and how much you lose when you're wrong." His approach often involves focusing on macroeconomic trends and making swift adjustments in response to market changes.

As we examine Stanley Druckenmiller's investment behavior in the latest quarter, a couple of intriguing purchases come into focus.

**1. Philip Morris**

One of the most significant new positions established by Duquesne Capital Management in the recent quarter is with Philip Morris International (NYSE: PM), a leading player in the international tobacco sector.

Druckenmiller's fund acquired nearly 900,000 shares in Philip Morris, with an estimated value of approximately $110 million. The firm also purchased call options on the stock, indicating a greater level of bullish sentiment toward this asset. Early indicators suggest that this investment strategy is paying off, as Philip Morris's stock has increased by over a third since its lows observed in April.

Philip Morris has excelled in shifting focus towards smoke-free alternatives, distinguishing itself from competitors like Altria and British American Tobacco. Currently, around 40% of Philip Morris's revenue is generated from next-generation products such as Zyn nicotine pouches and Iqos heat-not-burn devices. Notably, the company has acquired the rights to sell Iqos sticks in the U.S., opening up a potential market for its smoke-free product offerings.





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During its latest earnings report, Philip Morris showcased significant growth, reporting a 9.6% rise in organic revenue, totaling $9.5 billion, along with a 10.6% increase in adjusted earnings per share, reaching $1.77. The growth in its smoke-free categories was rather impressive, featuring an 18% rise in organic revenue and a substantial 22% increase in gross profit. With the increasing share of smoke-free products in its business model, Philip Morris is poised for continued revenue growth.

Additionally, Philip Morris remains a robust dividend stock, boasting a dividend yield of 4.3%.

**2. Coherent**

Stanley Druckenmiller's largest investment at present is in Coherent (NYSE: COHR), following significant divestitures from substantial stakes in companies such as Coupang and a reduction in Nvidia shares.

Coherent specializes in laser technology and electro-optic switches, with its innovations proving essential in semiconductor manufacturing, thus aligning the company with the ongoing artificial intelligence boom.

The company has recently reported strong growth in its Datacom transceiver segment, which plays a crucial role in fiber-optic networks and is benefiting from the escalation of generative AI technologies. This growth has contributed to a rise in Coherent's gross margin, which expanded by 440 basis points, reaching 32.9%.

Market analysts forecast a continuation of profit growth, fueled by the rapid developments within emerging technologies. Coherent's internal projections anticipate adjusted earnings per share between $0.53 and $0.69, a significant increase from just $0.16 in the previous year's quarter. In addition, revenue is projected to surge by 24.7% at the midpoint of their forecast, ranging between $1.27 billion and $1.35 billion.

In line with Philip Morris, Coherent's stock also saw a notable uptick, climbing over 50% from its April low.

Druckenmiller previously made an early investment in Nvidia following the emergence of ChatGPT, showcasing his keen insight into the artificial intelligence sector. This insight may partly explain his aggressive acquisition of Coherent, a lesser-known player in the AI stock market that has the potential to be a long-term success story if it can maintain its growth trajectory.

**Continue reading here**



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# SOVEREIGN/GOVERNMENT BONDS AND CREDIT

**One of the most widely-followed measures of the U.S. Treasury yield curve un-inverted this month for the first time since 2022 (from Holger Zschaepitz via X)...**

US 2s/10s yield spread is now flat for the 1st time since 2022 on aggressive repricing of Fed rate cuts. US 2y yields have plunged by 70bps to 3.69% since last Wed while US 10y yields only dropped by 40bps in the same time.

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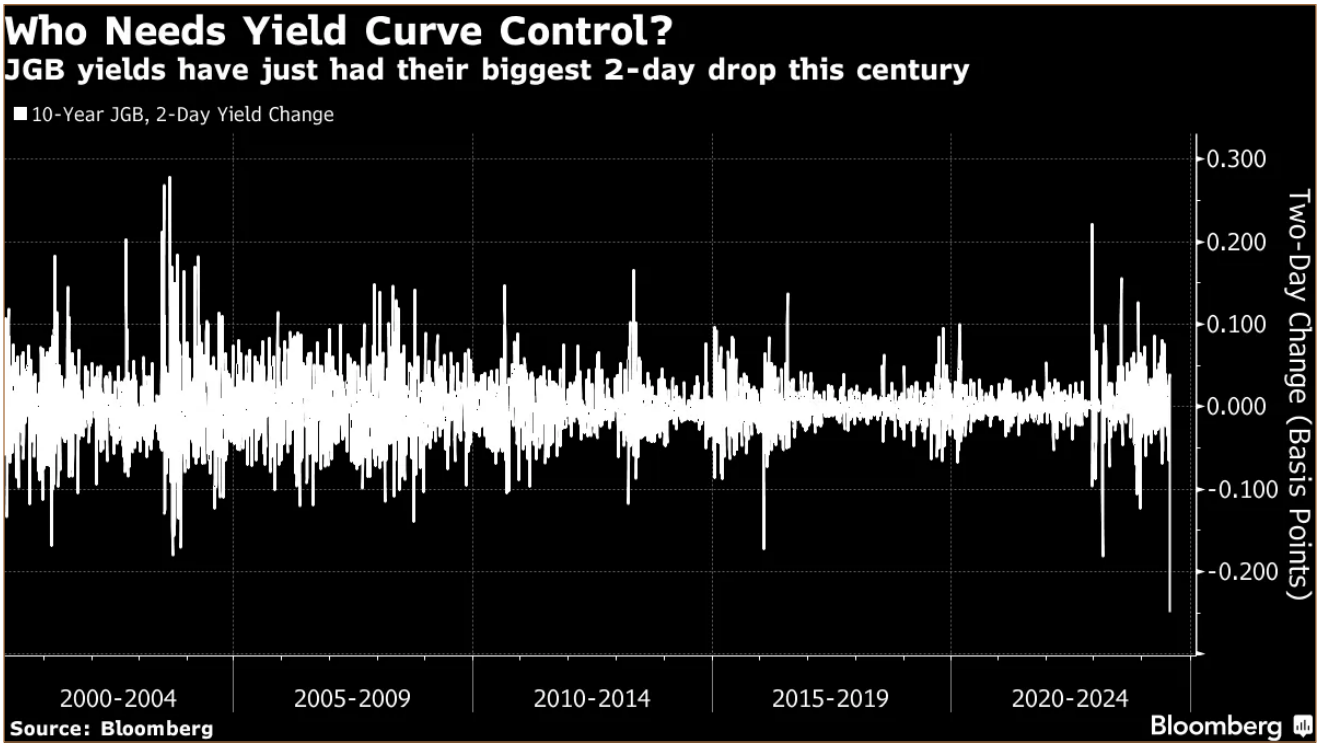
**The decline in Japanese government bond ("JGB") yields on August 2 and August 5 was the biggest two-day fall this century (from *Bloomberg*)...**

Friday brought quite a selloff in Tokyo. At the time of writing, Monday morning is delivering an extraordinary sequel. Only last week, the Bank of Japan announced that it would be halving its purchases of bonds. The discontinued policy of Yield Curve Control, which had latterly kept the 10-year JGB yield below 1%, was well and truly over. Yet since the market opened Friday, we've witnessed the biggest two-day fall in JGB yields this century:

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**New research says U.S. Treasuries are no longer the "safe bet" they once were (from Yahoo Finance)...**

No safer than a bund. Or a gilt. Or an OAT.

Long touted as hands-down the world's "safe haven" securities, the behavior of U.S. Treasuries during and after the COVID-19 pandemic calls that label into question, suggesting they are little different from the debt issued by the likes of Germany, Britain, France, or even big corporations.

That's the key finding of new research presented at the Kansas City Fed's annual research conference in Jackson Hole, Wyoming. It examines a shift in investor behavior in that period that raises questions about the "exorbitant privilege" the U.S. government has long enjoyed to borrow broadly on the global market even as federal budget gaps grow ever wider.

It's a timely question given growing deficits are seen as a near certainty regardless of who becomes the next U.S. president.

New York University's Roberto Gomez-Cram, London Business School's Howard Kung and Stanford University's Hanno Lustig also throw into question the assertion that the Treasury market was dysfunctional in that period - as asserted by the Federal Reserve when it launched its massive bond buying - or just rationally pricing the risk of a massive unfunded spending shock then being prepared in response to the health emergency.

"In response to COVID, U.S. Treasury investors seem to have shifted to the risky debt model when pricing Treasurys," wrote New York University's Roberto Gomez-Cram, London Business School's Howard Kung and Stanford University's Hanno Lustig in the paper. "Policymakers, including central banks, should internalize this shift when assessing whether bond markets are functioning properly."

The researchers looked at the behavior of Treasuries securities during the pandemic shutdown of 2020, when yields shot higher not just for U.S. debt but for bonds issued by nations across the globe.

They found that investors did not, as they had during previous episodes of global financial stress, pile into Treasuries and drive up their value. Instead, investors marked down Treasury securities, much as they did for bonds from other countries.





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Meanwhile the U.S. Federal Reserve responded to the spike in U.S. Treasury yields as if it were a result of market dislocation, they said, buying up bonds to bring back order to the world's usually most liquid debt market as they had during the Global Financial Crisis.

"In the risky debt regime, valuations will respond to government spending shocks, which may involve large yield changes in bond markets," the researchers said, noting that they found especially big market moves on days when fiscal stimulus was announced.

"In this environment, large-scale asset purchases by central banks in response to a large government spending increase have undesirable public finance implications," they wrote. "These purchases, which provide temporary price support, destroy value for taxpayers but subsidize bondholders" and may also encourage governments to overestimate their true fiscal capacity, they wrote.

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**Data suggests demand for U.S. Treasury bonds is weakening (from Torsten Sløk in The Daily Spark)...**

When a US government bond auction is announced, a new when-issued bond starts trading, which allows the market to trade the new Treasury bond before the auction has completed. Such trading activity promotes price discovery and allows the market to trade the government bond before it is available for sale.

When the auction is complete, the yield difference between the when-issued bond and the new bond is generally called the tail. Specifically, a one basis point tail means that the auction result was one basis point higher than where the when-issued yield was trading minutes before the auction was completed, normally at 1 p.m.

This past week, there were auctions for 10-year and 30-year Treasuries, and they both tailed three basis points, which signals that demand for Treasuries was significantly weaker than the market expected. The chart below shows tails for 10-year auctions since January 2020, and the chart shows that a three basis point tail is very significant.

**The bottom line is that the trend of larger and more frequent tails since the Fed started raising interest rates in March 2022 underscores the importance of investors closely monitoring Treasury auction metrics. These metrics can provide early indications of weakening demand for Treasuries.**

It is possible to track tails in Bloomberg using the tickers USN10YTL and USBD30TL.





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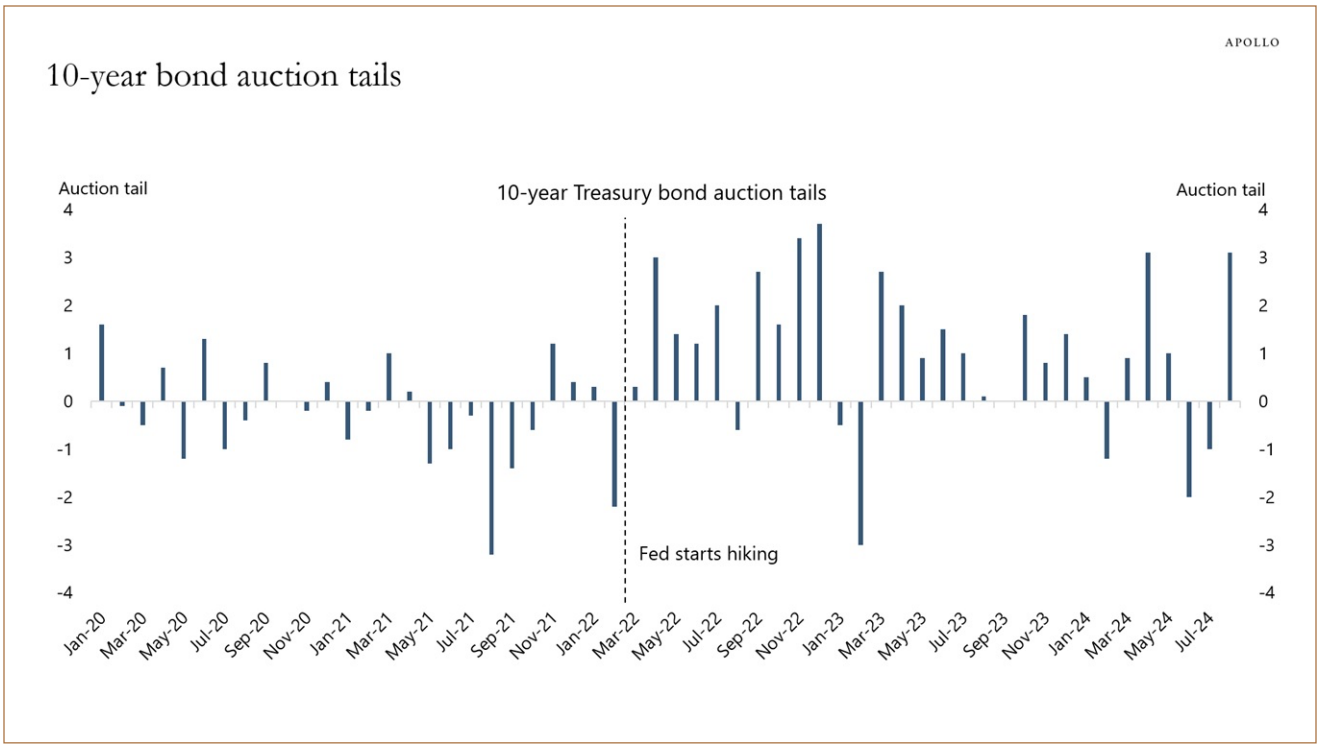


*Source: US Treasury Department, Bloomberg, Apollo Chief Economist. Note: Bloomberg ticker USN10YTL Index. Auction tail = Difference between the auction draw and when–issued price at auction. A positive tail means the auction yield was higher than or worse than expected. A negative tail means the auction yield was lower than or better than expected.*



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**The simple shift behind the bond market's "memestock-like tendencies" (from Luke Gromen via X)...**

Replace the most patient creditors (global Central Banks, who stopped buying USTs on net in 2014) with highly-levered relative value hedge funds (who have a monthly performance mandate) as biggest marginal buyers of USTs & voila!

Bonds "display memestock-like tendencies."

FINANCIAL TIMES

Opinion **US economy**

# Whatever happened to the wisdom of the bond market?

This supposedly brainy sector has been displaying memestock-like tendencies for a while now

KATIE MARTIN

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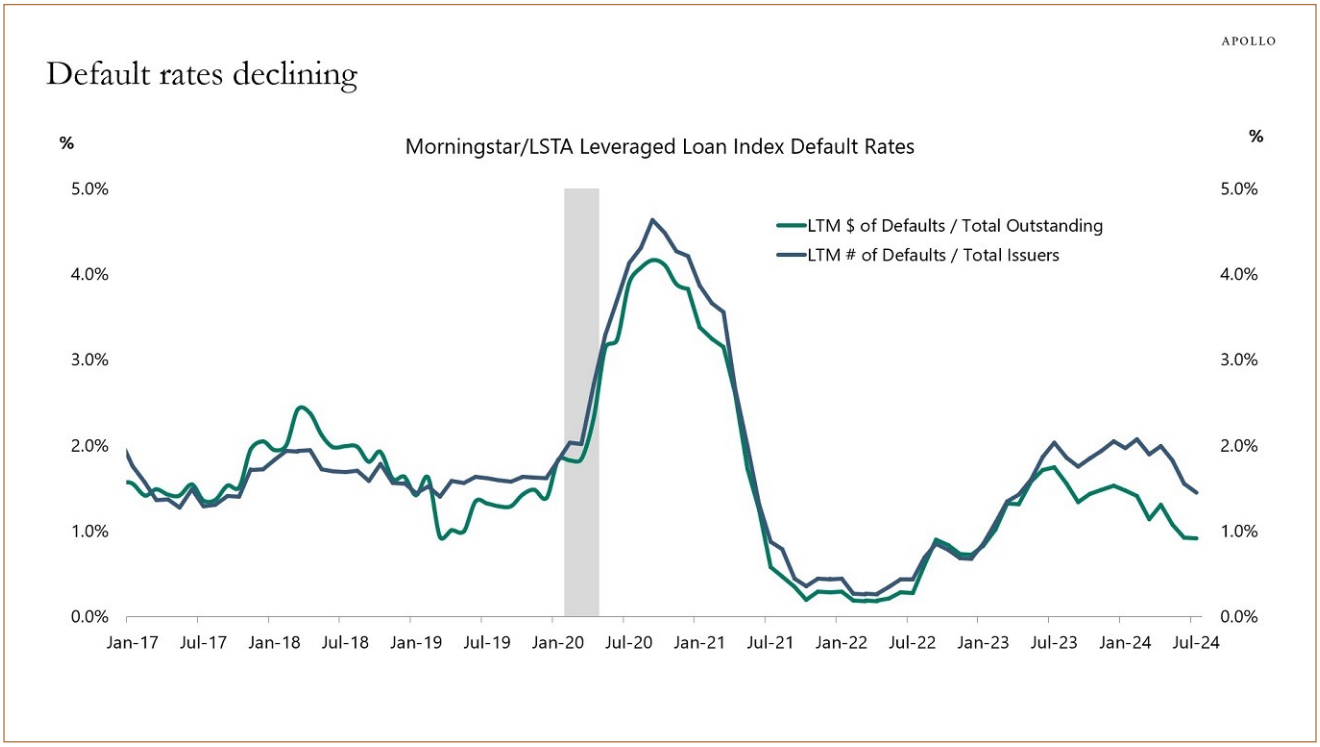
# CORPORATE BONDS AND CREDIT

**Corporate default rates have been declining recently (from Torsten Sløk in The Daily Spark)...**

The soft employment report for July is in sharp contrast to the steady decline in default rates seen in recent months, see chart below.

If the economy were crashing, default rates would be spiking higher, and that is not what the data shows...



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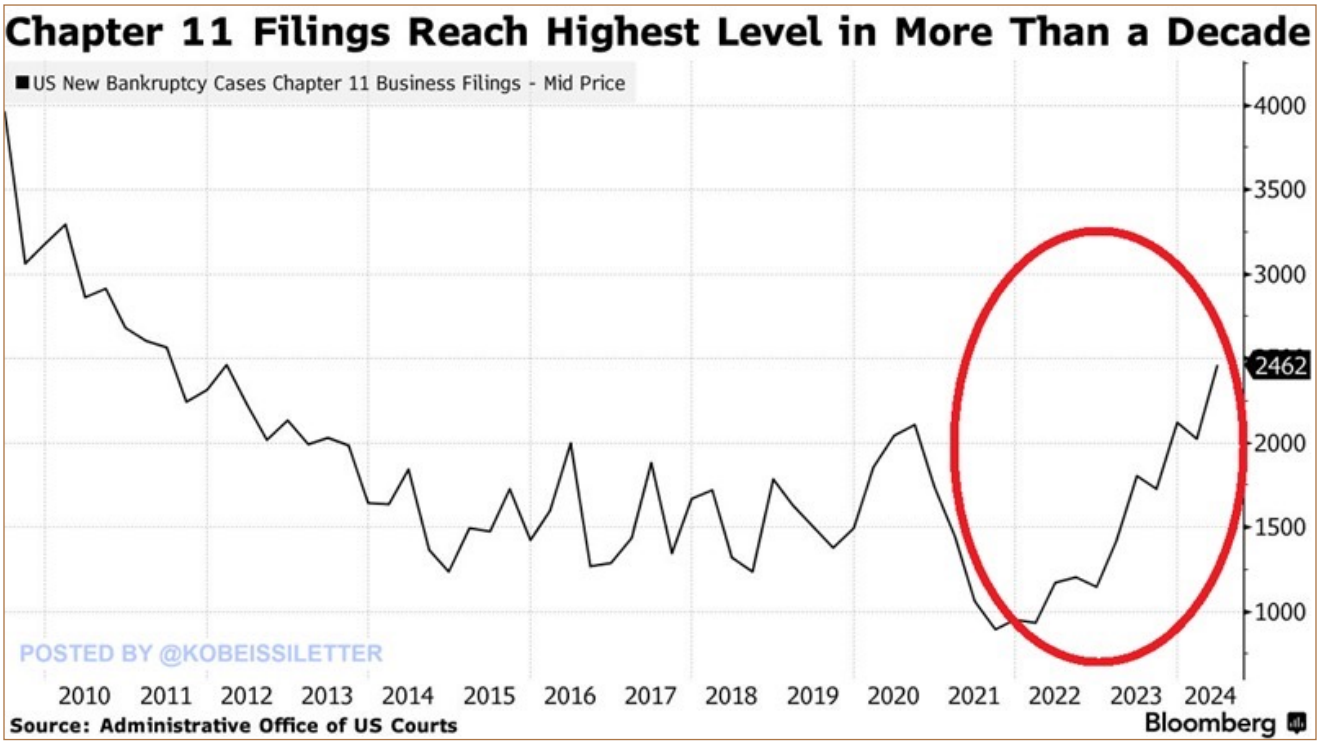
**U.S. bankruptcies reach a new post-Great Financial Crisis high (from The Kobeissi Letter via X)...**

The number of US bankruptcies currently under Chapter 11 jumps to 2,462, the highest count in 13 years.

A Chapter 11 filing involves court-supervised reorganization and allows a company to stay in business and restructure its finances and operations.

These bankruptcies have more than DOUBLED in just 2 years.

This comes after many companies have struggled to make their debt payments as the Fed raised interest rates to the highest level in 23 years...





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**An update on the state of the high-yield corporate bond market (from JunkBondInvestor)...**

**Market Performance**

| Description | Total Return WTD Period Ended, 8/23/2024 | 8/16/2024 | 8/9/2024 | Total Return MTD | QTD | YTD |
|---|---|---|---|---|---|---|
| High Yield ("HY") Total Return | +0.71% | +0.77% | +0.25% | +1.42% | +3.40% | +6.07% |
| BB Total Return | +0.66% | +0.65% | +0.24% | +1.41% | +2.98% | +5.53% |
| B Total Return | +0.68% | +0.76% | +0.24% | +1.31% | +3.10% | +5.58% |
| CCC Total Return | +0.95% | +1.12% | +0.30% | +1.54% | +5.24% | +7.48% |

**Market Metrics**

| Description | Week Ended, 8/23/2024 | 8/16/2024 | w/w Δ | 52-Week Low | High | % of Range |
|---|---|---|---|---|---|---|
| HY Yield to Worst ("YTW") | 7.31% | 7.47% | (0.17%) | 7.31% | 9.49% | 0% |
| BB YTW | 6.00% | 6.16% | (0.16%) | 6.00% | 8.16% | 0% |
| B YTW | 7.14% | 7.30% | (0.16%) | 7.14% | 9.68% | 0% |
| CCC YTW | 11.70% | 12.20% | (0.51%) | 11.63% | 14.75% | 2% |
| HY Option-Adjusted Spread ("OAS") | 312 bps | 319 bps | -7 bps | 289 bps | 438 bps | 15% |
| BB OAS | 183 bps | 189 bps | -6 bps | 168 bps | 302 bps | 11% |
| B OAS | 287 bps | 294 bps | -7 bps | 259 bps | 455 bps | 14% |
| CCC OAS | 762 bps | 800 bps | -38 bps | 714 bps | 975 bps | 19% |

*Source: Bloomberg*

@junkbondinvest

The high yield market continued its positive momentum last week returning +0.71%, following a +0.77% return the previous week. This brings MTD returns to +1.42%, QTD returns to +3.40%, and YTD returns to an impressive +6.07%. By ratings category, CCCs saw the best performance last week, returning +0.95%, led by 38 bps of spread compression. From a sectoral basis, there has been notable dispersion with Telecom and Technology outperforming and Autos and Media lagging.

Adding to the positive market sentiment, Powell's remarks at the Jackson Hole symposium on Friday signaled a clear shift towards rate cuts. While the size of potential cuts remains uncertain, the Fed appears more focused on labor market risks than inflation concerns. This dovish stance, coupled with mixed economic data including tame jobless claims but a significant downward revision to March 2024 payrolls, has fueled expectations of a more



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accommodative monetary policy environment, supporting the high yield market's recent strong performance.

The overall YTW for the HY market now stands at 7.31%, down 17 bps from last week. This compression in yields reflects both a rally in treasuries and a tightening of credit spreads. The market's YTW now sits at its lowest level this year although spreads are still slightly wider than their lows.

**Interesting Sharable Stats:**

1. CCC yields have now decreased for 12 consecutive sessions, the longest declining streak since December 2012
2. At 7.31%, the HY YTW is at its lowest level since June 2022, a 26-month low
3. Last week marked the 12th consecutive positive session for high yield bonds, the longest rally since July 2021

**Primary Market:**

**New Issue Monitor Week Ended August 23, 2024 (Sorted by Size)**

@junkbondinvest

| # | Issuer | Sector | Rank | Ratings | Issued Amt | Issue Price | Issue Yield | Current (Ask) Price | Current (Ask) YTW | Current (Ask) STW | Price Change |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | ALLIED UNIVERSAL | Consumer Discretionary | Secured | B3/B | 300 | 100.0 | 7.9% | 101.5 | 7.5% | 405 bps | +1.5 |
| 2 | CHEMTRADE LOGISTICS | Materials | Sr Unsecured | / | CAD 250 | 100.0 | 6.4% | 100.3 | 6.3% | 340 bps | +0.3 |
| 3 | SURGE ENERGY INC | Energy | Sr Unsecured | /B+ | CAD 175 | 100.0 | 8.5% | 100.5 | 8.2% | 534 bps | +0.5 |

*Source: Bloomberg*

Despite the typical August slowdown, last week saw 1 US HY primary deal as well as a couple of CAD-denominated issuances. Total US HY volumes reached $300 million for the week ended August 23, 2024.

This activity has pushed MTD volumes to $18 billion, marking a 3-year high for August issuance. Additionally, high yield bond issuance now stands at $197 billion YTD, compared to $176 billion for ALL of 2023!

Current market sentiment remains positive, driven by expectations of Fed rate cuts and improved economic data. As we approach the post-Labor Day period, market participants are





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anticipating a potential surge in issuance activity. The technical backdrop has continued to improve since the volatility seen earlier this month, which bodes well for demand when the #LevFin pipeline opens up after Labor Day. Get ready for an active September!

**Notable US deals last week included:**

1. Allied Universal (B3/B) placed a $300 million tap of an existing issue at 100. The bonds traded up 1.5pts following issuance.

**Secondary Market:**

**Top 7 Price Movers**

@junkbondinvest

| # | Issuer | Security | Amount Outs. | Ratings | 5 Day Px Chg | Current Price | Current YTW | Current STW |
|---|---|---|---|---|---|---|---|---|
| 1 | STAPLES INC | SPLS 12.75 30 | 826 | Caa2/CCC | +6.3 | 77.3 | 19.8% | 1,635 |
| 2 | LUMEN TECHNOLOGIES INC | LUMN 4.5 29 | 409 | Caa3/CCC- | +6.2 | 57.2 | 19.4% | 1,602 |
| 3 | SCRIPPS ESCROW II INC | SSP 5.375 31 | 392 | Caa2/B- | +5.9 | 46.1 | 21.1% | 1,772 |
| 4 | GRAFTECH GLOBAL ENTERI | EAF 9.875 28 | 450 | Caa1/B- | +4.7 | 81.7 | 15.9% | 1,244 |
| 5 | IHEARTCOMMUNICATIONS I | IHRT 6.375 26 | 800 | Caa1/B- | +3.9 | 84.3 | 17.6% | 1,370 |
| 6 | ACPRODUCTS HOLDINGS IN | ACPROD 6.375 29 | 550 | Caa3/CCC- | +3.8 | 50.4 | 24.8% | 2,135 |
| 7 | COMMSCOPE LLC | COMM 8.25 27 | 943 | Ca/CCC- | +3.7 | 83.6 | 16.5% | 1,284 |

**Bottom 7 Price Movers**

| # | Issuer | Security | Amount Outs. | Ratings | 5 Day Px Chg | Current Price | Current YTW | Current STW |
|---|---|---|---|---|---|---|---|---|
| 1 | CMG MEDIA CORPORATION | CMGMCO 8.875 27 | 1,015 | Caa3/CCC- | (5.3) | 53.8 | 32.8% | 2,923 |
| 2 | SPIRIT LOYALTY KY LTD/IP | SAVE 8 25 | 600 | Caa2/ | (3.3) | 60.1 | 61.8% | 5,756 |
| 3 | RACKSPACE TECHNOLOGY | RAX 5.375 28 | 125 | Caa3/CCC | (1.5) | 29.1 | 43.0% | 3,950 |
| 4 | ALLEN MEDIA LLC/CO-ISSR | ALNMED 10.5 28 | 650 | Caa3/CCC- | (1.5) | 39.9 | 47.4% | 4,390 |
| 5 | BAUSCH HEALTH COS INC | BHCCN 6.25 29 | 821 | Ca/CCC | (1.3) | 53.6 | 23.6% | 2,017 |
| 6 | H-FOOD HOLDNG/HEARTHSI | HEFOSO 8.5 26 | 350 | C/C | (0.9) | 8.2 | nmf | nmf |
| 7 | BAUSCH HEALTH COS INC | BHCCN 5.25 31 | 463 | Ca/CCC | (0.9) | 50.3 | 18.9% | 1,550 |

*Source: Bloomberg*



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# CONSUMER CREDIT

**One million borrowers now owe more than $200,000 in federal student loans (from CNBC)...**

The number of federal student loan borrowers with six-figure debts is on the rise.

In the second quarter of 2024, 2.4 million borrowers carried a federal student loan balance between $100,000 and $200,000, up from 1.8 million people who owed that much during the same period in 2017, according to new data by the U.S. Department of Education.

Meanwhile, 1 million people had a federal student loan balance of more than $200,000, up from 600,000 individuals.

Wayne Johnson, who served as the chief operating officer of the Office of Federal Student Aid from 2017 until 2019, tells CNBC he saw some eye-popping balances during his time at the Education Department.

“There are quite a number of people who owe the federal government over $2 million in federal student loans,” Johnson said

**Continue reading here**





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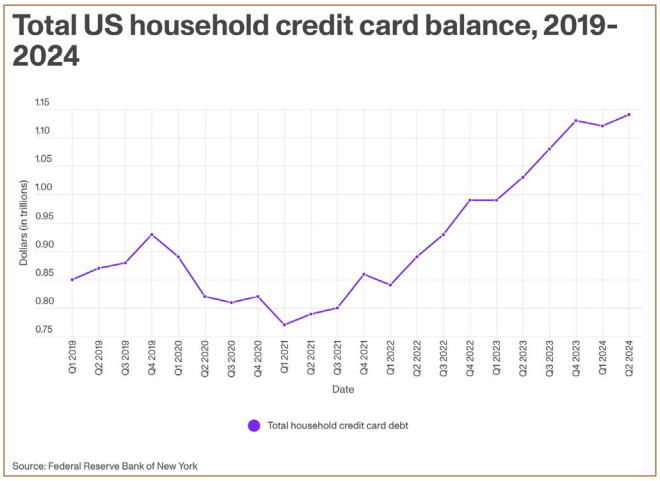
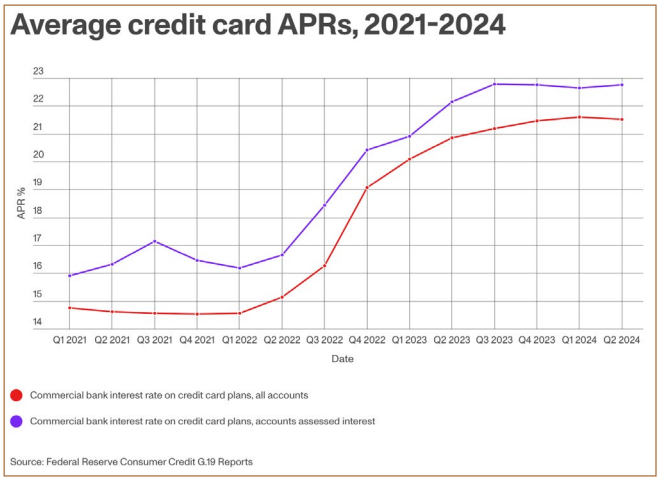
**Inside America's $1.14 trillion credit-card debt crisis (from CNET)...**

Credit card debt in America continues to break records. After a brief payoff period during COVID-19 lockdown powered mainly by stimulus checks, our collective overall credit card bill became a 13-digit number last year, and now sits at $1.14 trillion according to the most recent Household Debt and Credit report from the Federal Reserve Bank of New York's Center for Microeconomic Data. Consumers typically make larger credit card payments in the first quarter, but both this year and last year the quarter-over-quarter balance remained nearly flat.

What's more alarming is that the cost of carrying this debt has also increased. Credit card APRs went up 30% in an 18-month period to the highest interest rate we've ever seen, rendering monthly payments less productive and eating away at consumers' budgets more than ever before.

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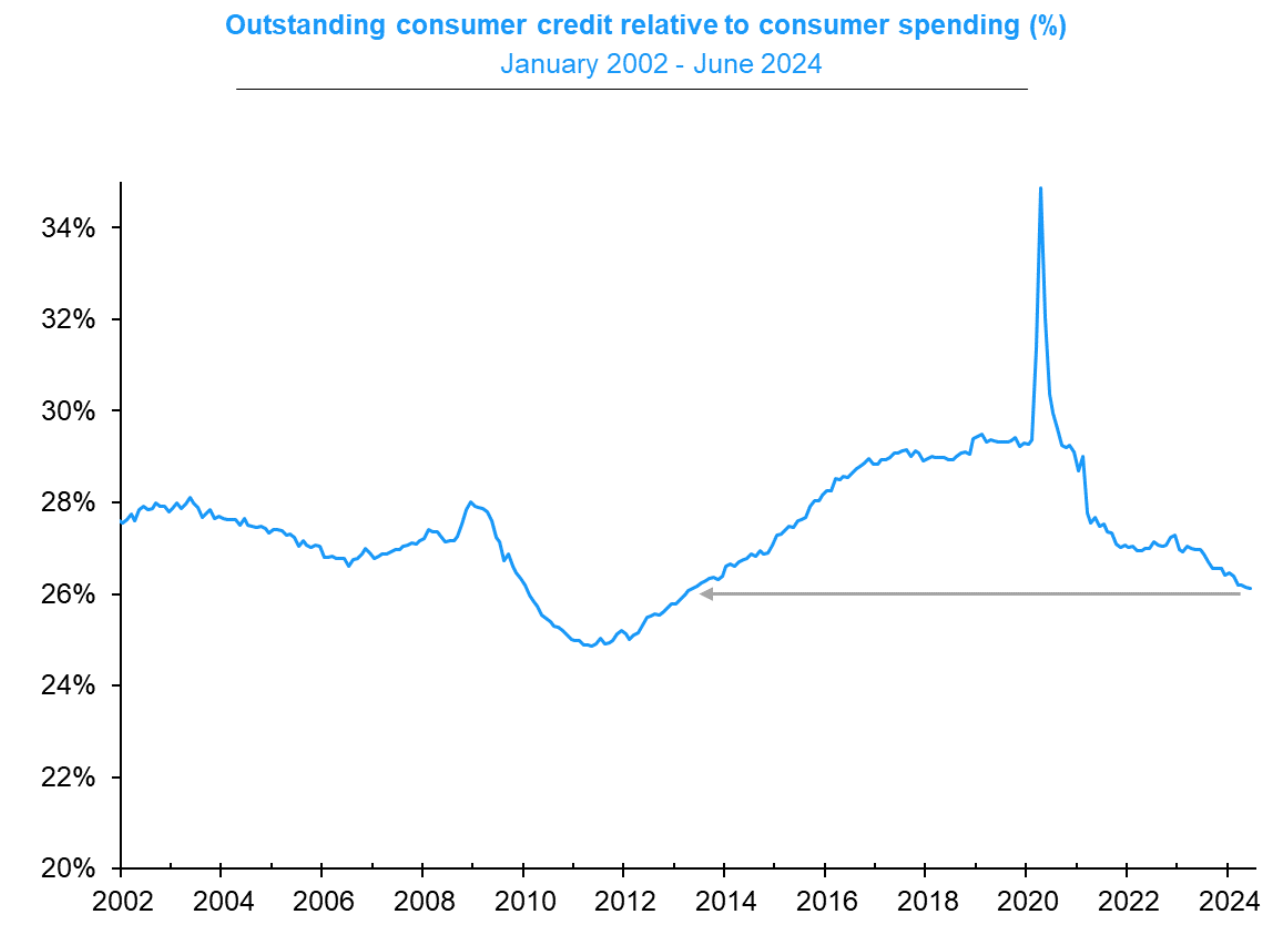
**While the total amount of consumer credit outstanding has surpassed $5 trillion, leverage relative to consumer spending is relatively subdued (from Gregory Daco via X)...**




Source: Federal Reserve Board; EY-Parthenon





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**Refinancings have been rising as mortgage rates move lower (from *MarketWatch*)...**

Applications for mortgages surged as homeowners jumped on lower rates to refinance their home loans.

The 30-year mortgage rate fell for the second week in a row to the lowest level in a year.

The drop in rates pushed the market composite index — a measure of mortgage-application volume — up last week, the Mortgage Bankers Association said Wednesday.

The market index rose 16.8% on a weekly basis, to 251.3 for the week ending August 9. A year ago, the index stood at 193.

The index is now at the highest level since January 2023.

Key details: The purchase index — which measures mortgage applications for the purchase of a home — rose 2.8% from the week prior.

Meanwhile, the refinance index jumped by 34.5% on a weekly basis, and was 117% higher than a year ago.

A separate report from Fannie Mae on Tuesday also showed that refinance applications rose by 33% from the previous week, with activity jumping to the highest level since August 2022, when rates were closer to 5%.

The average contract rate for the 30-year mortgage for homes sold for $766,550 or less was 6.54% for the week ending August 9. That was down from 6.55% the previous week.

**Continue reading here** *(subscription may be required)*



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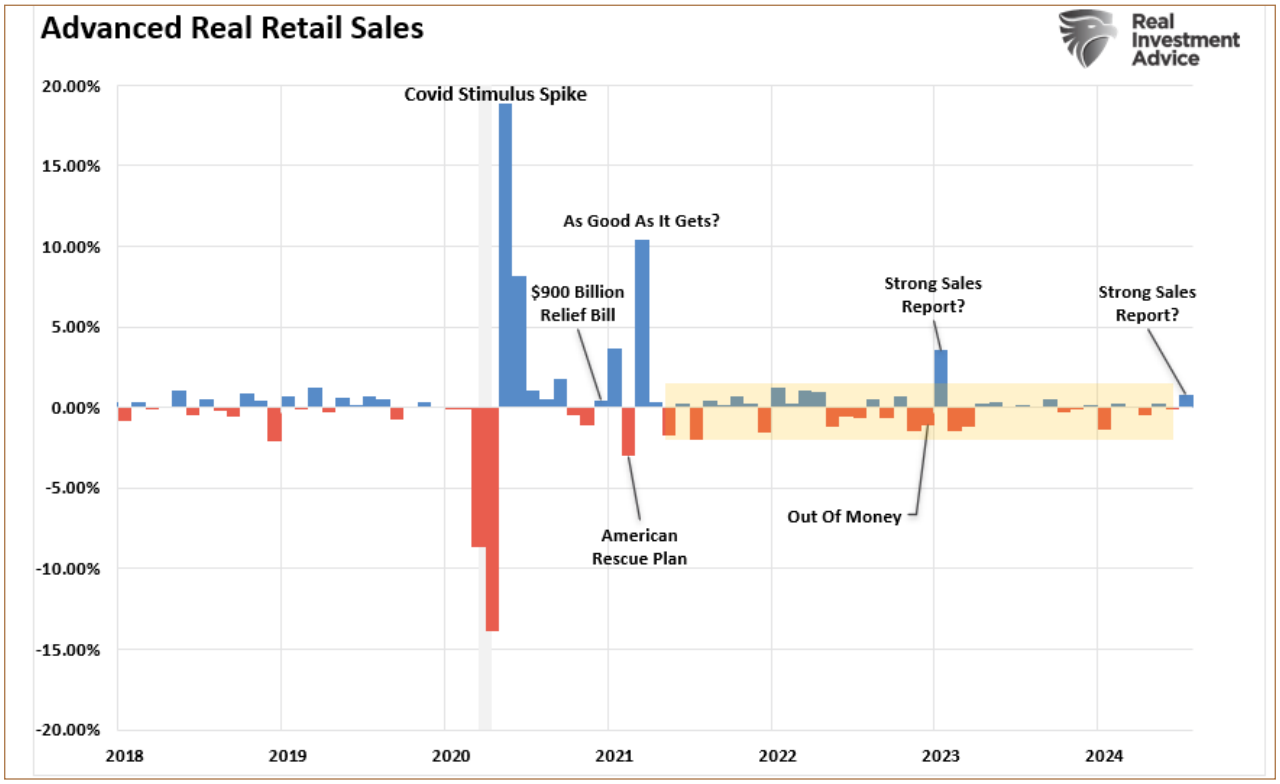
**U.S. consumers may be in more trouble than the latest retail sales data indicates (from Lance Roberts in RIA Advice)...**

The latest retail sales report seems to have given Wall Street something to cheer about. Headlines touting resilience in consumer spending increased hopes of a "soft landing" boosting the stock market. However, as is often the case, the devil is in the details. We uncover a more troubling picture when we peel back the layers of this seemingly positive data. Seasonal adjustments, downward revisions, and rising delinquency rates on credit cards and auto loans suggest a more cautious view. The consumer—the backbone of the U.S. economy—may be in more trouble than the headline numbers indicate.

**The Mirage of Seasonal Adjustments**

The July retail sales report showed a sharp increase of 1.0% month-over-month, surpassing expectations. However, while that number supports the idea of a resilient consumer, these spikes have been more anomalous than not. Since 2021, real retail sales have virtually flatlined. Such is unsurprising as consumers run out of savings to sustain their standard of living.





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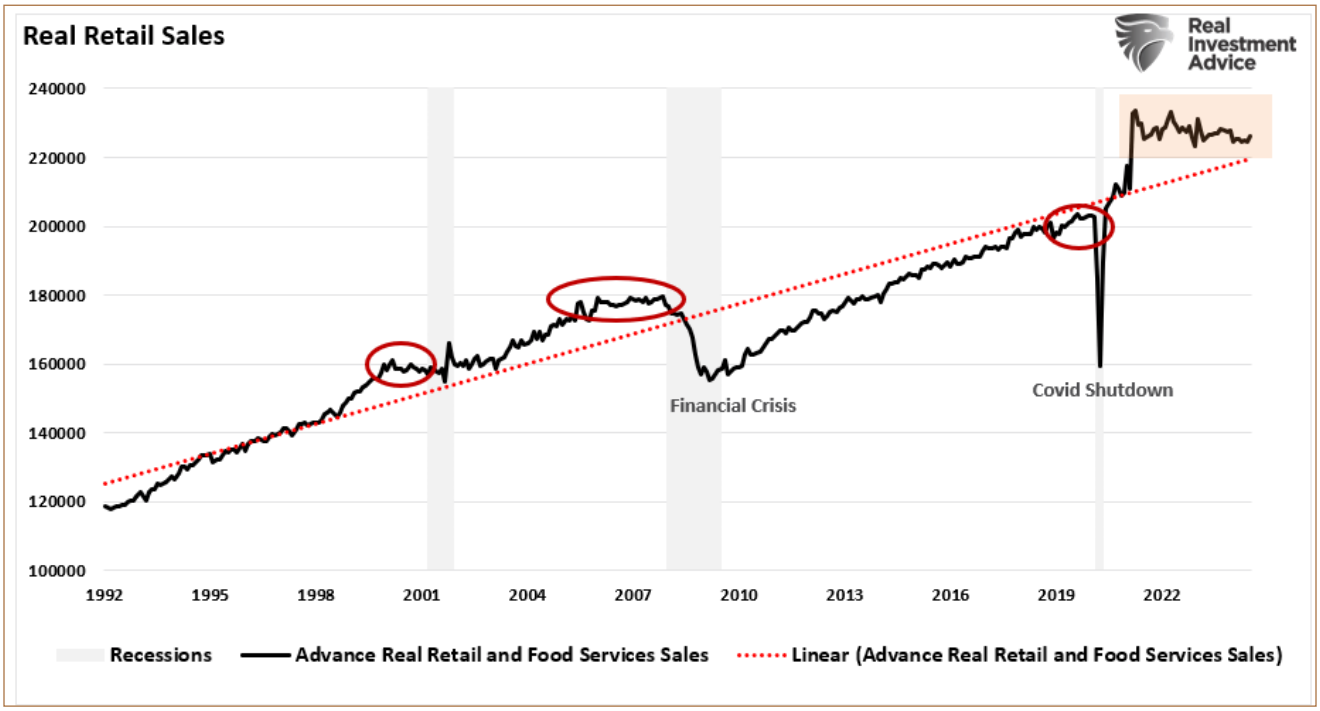
The following chart of real retail sales clearly shows the consumer dilemma. Over the past two years, retail sales have not grown to support more robust economic growth rates. Notably, flat real retail sales growth was pre-recessionary and a "red flag" of weakening economic growth. However, given the massive surge in spending driven by repeated rounds of Government stimulus, the reversion of retail sales to the long-term trend has taken longer than previous periods, leading economists to believe "*this time is different*."




But before we break out the champagne, let's examine how these numbers are calculated. Retail sales data is notoriously volatile. Factors like weather, holidays, and even the day of the week play a significant role. To smooth out these fluctuations, the data is seasonally adjusted. The chart shows the magnitude of these seasonal adjustments since 1992. Interestingly, the magnitude of these adjustments is increasing over time.



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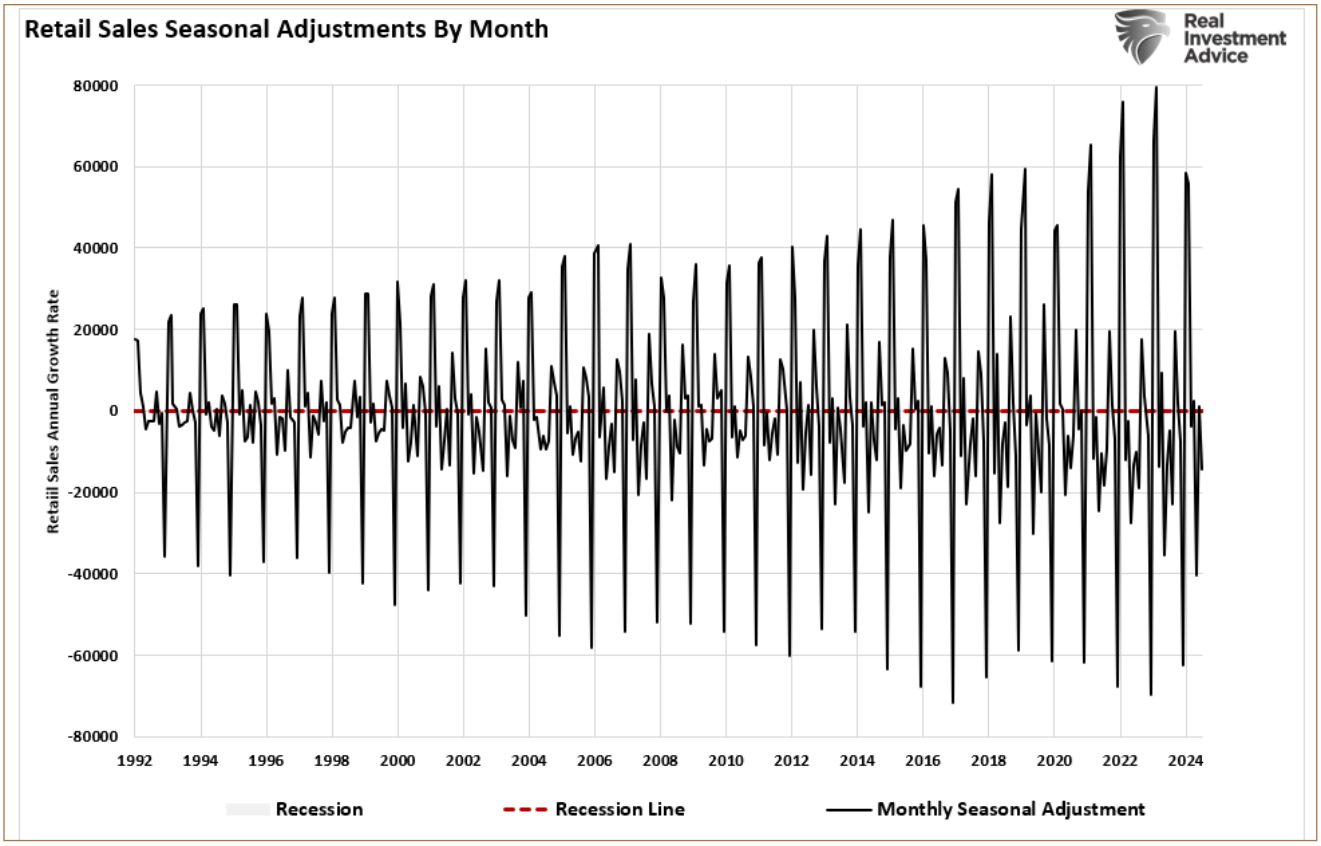


But what happens when those adjustments paint an overly rosy picture?

**Downward Revisions: A Growing Trend**

Seasonal adjustments are a double-edged sword. While they aim to provide a clearer view of underlying trends, they can also distort reality, especially in an economy as dynamic and unpredictable as ours. Unfortunately, these adjustments are often revised in hindsight as more data becomes available. For example, a “red flag” is that eight of the past twelve-monthly retail sales reports were revised significantly lower, making the recent monthly “beat” much less impressive.





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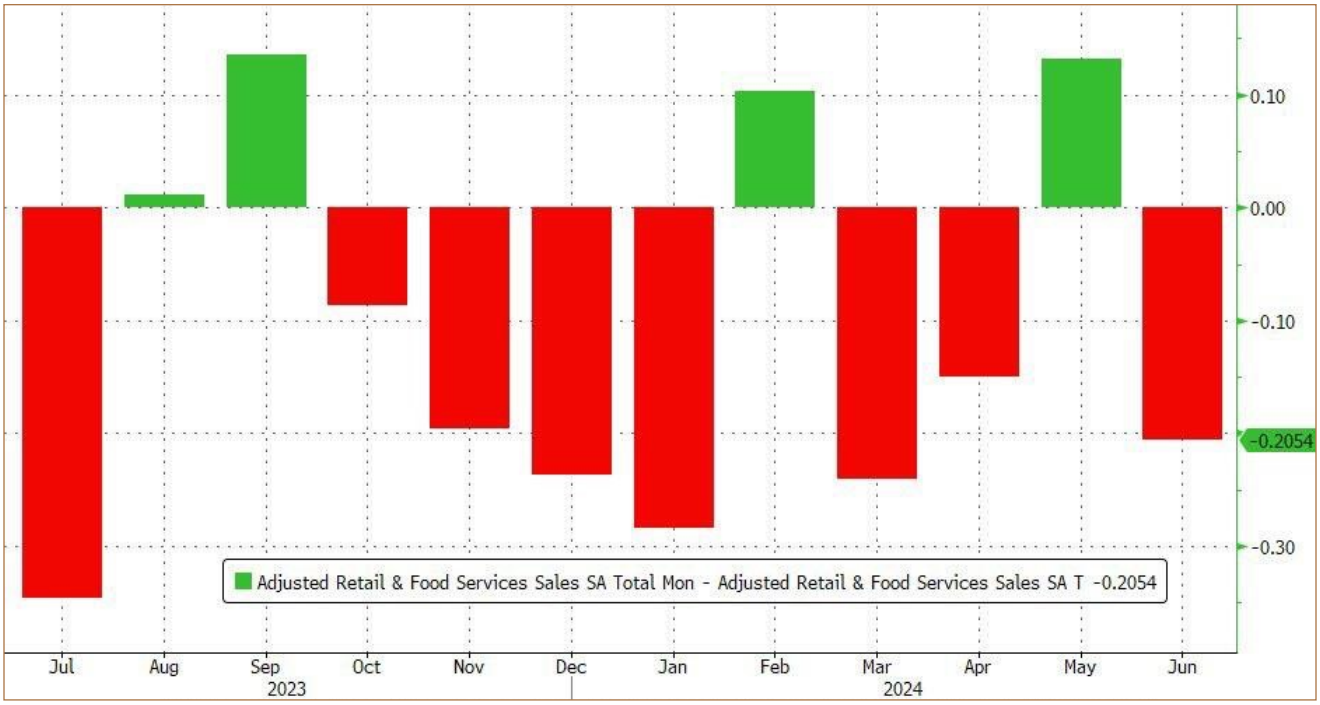


Why are retail sales being revised downward so frequently? One possible explanation is that initial estimates are overly optimistic, perhaps due to seasonal adjustments. As more accurate data becomes available, the true picture emerges, and it's not as pretty as many believe. So, is there potentially a better method?

As noted, monthly retail sales are volatile due to various events. Christmas, Thanksgiving, Easter, summer travel, back-to-school, and weather all impact consumer spending. Therefore, *"seasonally adjusting"* the raw data may seem necessary to smooth out these periods of higher volatility. However, such a process introduces substantial human error. Using a simplistic 12-month average of the non-seasonally adjusted data (*raw data*) provides a smoother and more reliable analysis of consumer strength. Historically, when the 12-month average of the raw data approaches or declines below 2% annualized, it is a "red flag" for the economy. Again, the massive spike in COVID-related stimulus is reversing towards levels that should concern investors.



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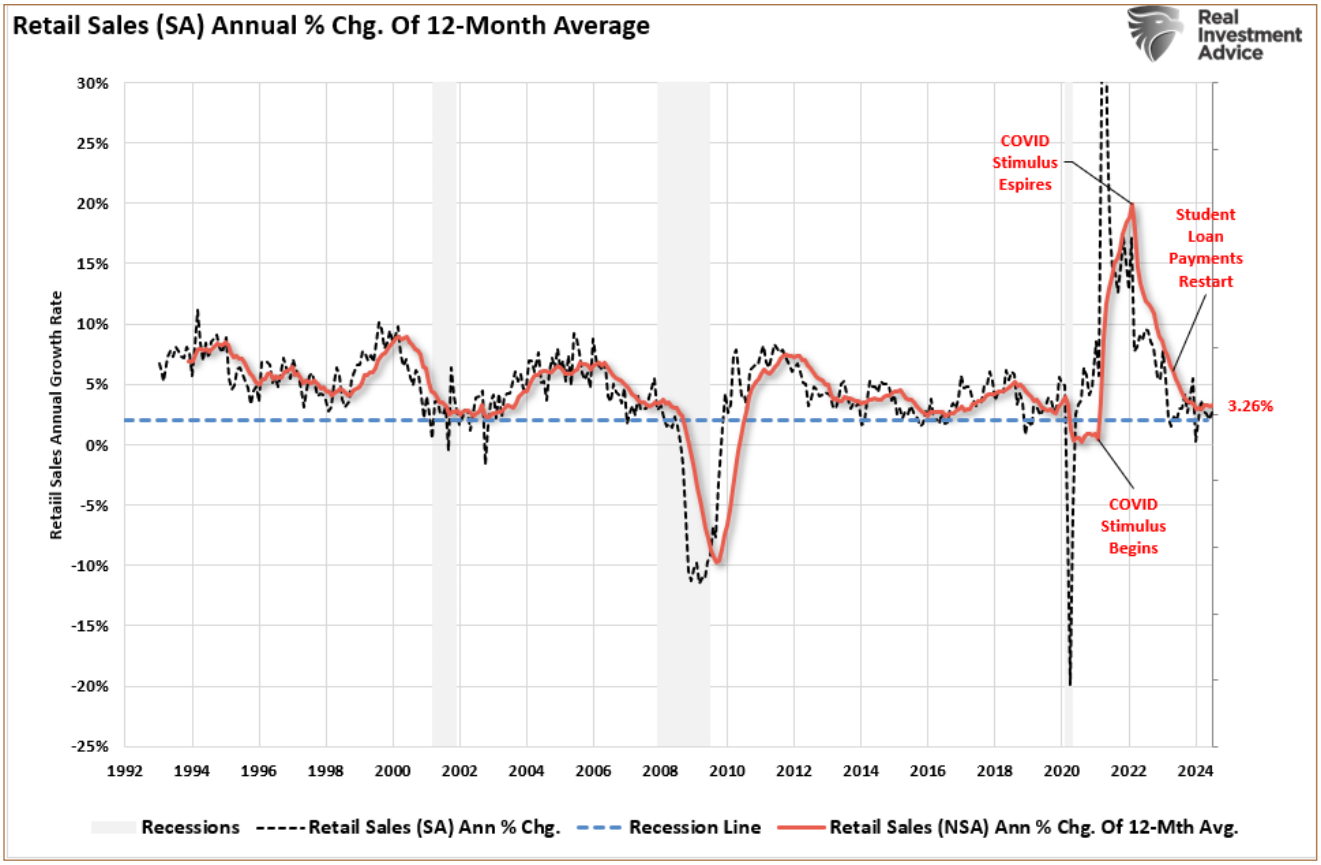


In other words, if we strip out the seasonal adjustments and apply a smoothing process to volatile data, the issue of consumer strength becomes more questionable.

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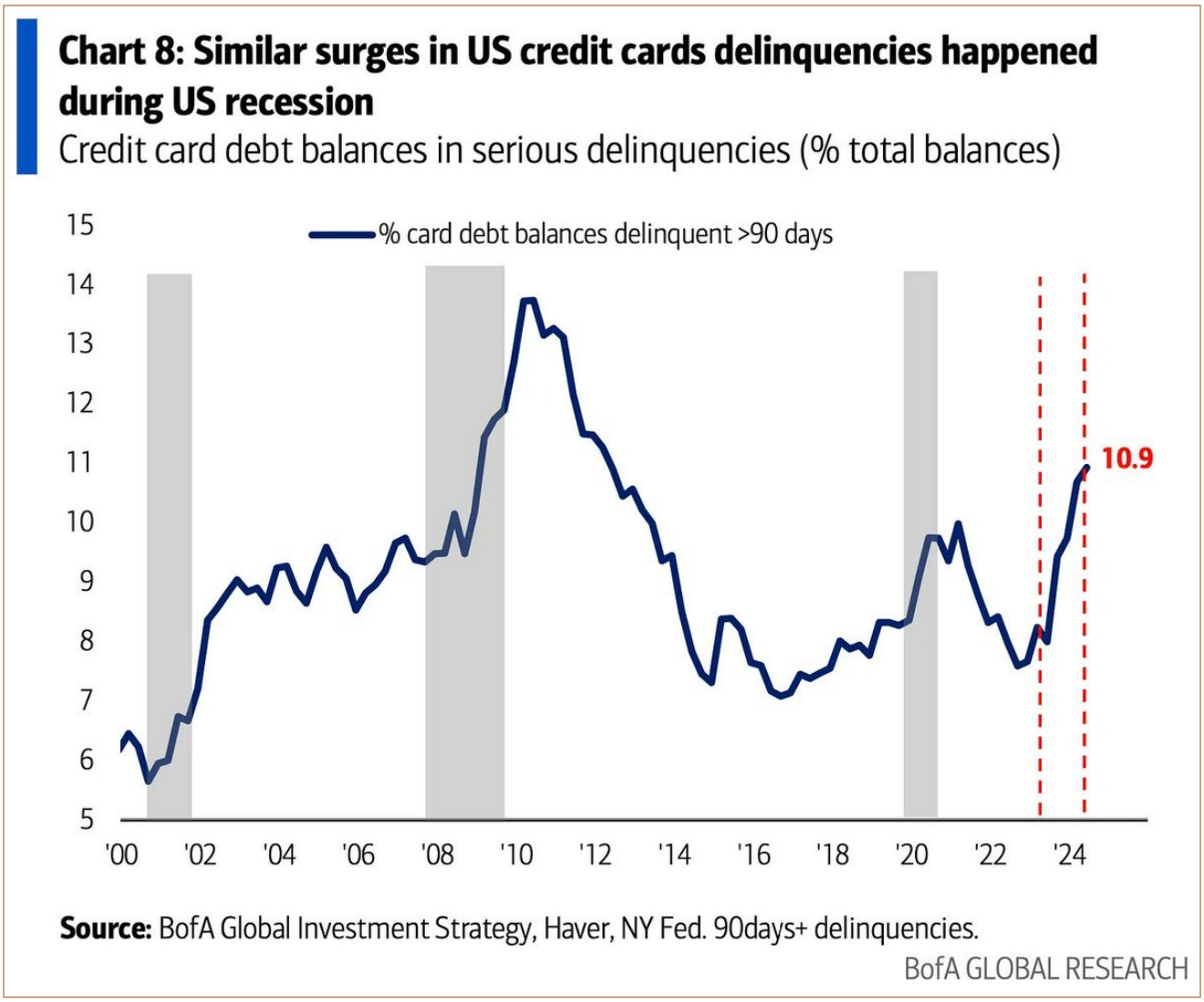
**Nearly 11% of credit cards are more than 90 days delinquent… Similar surges have indicated an economy that was already in recession (from Jesse Felder/Daily Chartbook via X)…**



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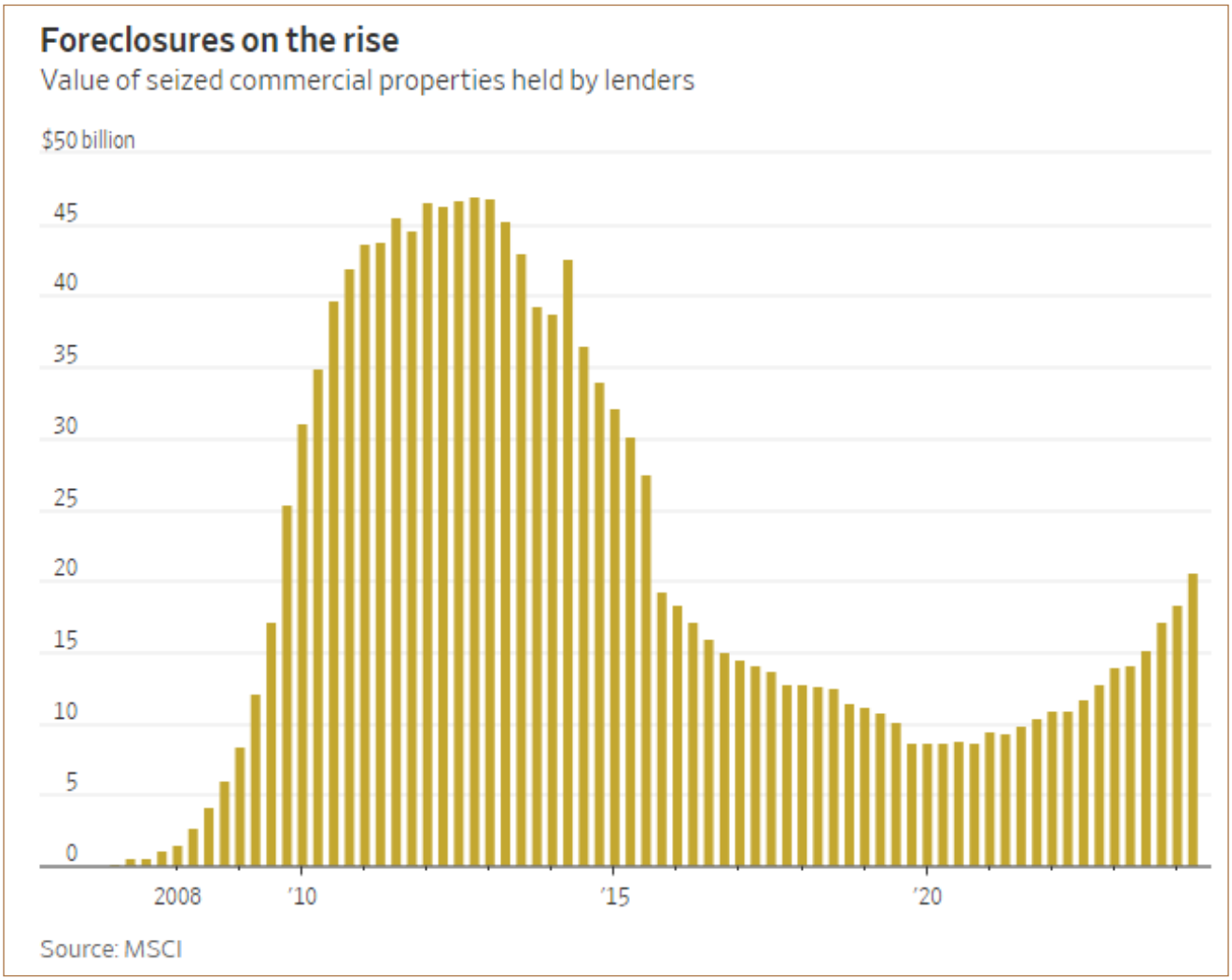
# REAL ESTATE

**Commercial real estate ("CRE") foreclosures rose to more than $20 billion during the second quarter, the most in nearly a decade (from Barchart via X)...**





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**So much about real-estate commissions just changed. Here's what you should know (from *The Wall Street Journal*)...**

The biggest changes in decades to the way real-estate agents get paid are being rolled out around the country. The National Association of Realtors, or NAR, reached a landmark legal settlement earlier this year over commissions, and by Aug. 17 most of its roughly 1.5 million members will be subject to the new rules.

Here is what home buyers and sellers need to know.

**How does the system work right now and how is it changing?**

For the past 30 years or so, the seller has typically paid the agents on both sides of a transaction and decided how much both agents get paid. Usually, sellers agree to pay their agents a certain amount—often 5% or 6% of the sale price—and the seller's agent splits that amount with the buyer's agent. When a home is listed for sale, the listing says how much the buyer's agent can expect to be paid.

Two main changes are happening now. First, listings in local databases called multiple-listing services will no longer show whether a seller is offering to pay a buyer's agent, or how much. Second, buyers will be required to sign agreements specifying how much their agents will be paid. Buyers will do this before they start touring homes with agents.

This means that buyers should negotiate directly with their agents, instead of letting the seller decide how much the buyer's representative earns.

These changes are happening across most of the U.S. but not everywhere. Here is a list of multiple-listing services that are adopting the rule changes.

**Is this going to bring home prices down?**

The rule changes don't automatically mean that real-estate agents' commissions will go down. That will be up to buyers and what fees they negotiate with their agents.

If commissions do fall, buyers could benefit by paying lower home prices or sellers could benefit by keeping more profit, depending on how competitive and fast-moving the market is.

**Am I eligible to receive money as part of this settlement?**

If you sold a home in the U.S. in the past decade or so, you might be one of some 50 million sellers who are eligible for a modest payout. Check out this page for details on who is eligible.



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**I'm planning to buy a home soon. Do I need to use a real-estate agent?**

Nope. Like home sellers, home buyers can choose to skip the agent and go at it alone, or use an attorney instead. Almost 90% of buyers used an agent in the year ended in June 2023, according to NAR. It depends on how much time you want to spend overseeing the home search and your confidence as a negotiator.

**If I do want to use an agent, how much will that cost?**

You and your agent will agree on compensation upfront. Buyers' agents today are usually paid a percentage of the sale price, often 2.5% or 3%.

Stephen Brobeck, a senior fellow at the Consumer Federation of America, suggests as a rule of thumb that buyers agree to pay no more than 2%. You can also look for an agent who offers a flat price, an hourly rate or specific fees for a menu of services.

You can sign a nonexclusive agreement, so you can work with other agents, too.

**What if I want to just tour a home or go to an open house without committing to an agent?**

The new rules require buyers to sign agreements with agents before touring homes. That agreement can be limited to just one home. But if you aren't ready for that commitment, you can go to an open house without an agent. Open houses are hosted by the seller's agent.

You can also ask sellers' agents to give you tours. In that case, the seller's agent isn't working for you, unless you both agree otherwise.

**Do I have to pay my agent myself?**

No. As a buyer, you will be responsible for coming to an agreement with your agent about how much the agent will get paid. But you can always ask the seller to cover that cost so you don't have to.

If the seller says no, you can sweeten your offer by raising the price. You can also walk away.

**What if the seller is offering a different amount than what I have agreed to with my agent?**

You have a few options to consider. Let's say you have agreed to pay your agent $10,000, but then you find a home to buy and the seller has offered to pay a buyer's agent $20,000. In that case, it is up to the seller what to do with the extra money. You can ask the seller to give that extra money back to you, either by lowering the purchase price or by giving you a concession.





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Now let's say you have agreed to pay your agent $10,000, but the seller is offering $5,000. You can still ask the seller to pay the full $10,000 when you make a bid to buy the home. You could also go back to your agent and try to renegotiate the fee.

**I'm planning to sell my home soon. Should I offer to pay the buyer's agent?**

Sellers now have more flexibility to decide whether to offer a commission to a buyer's agent. It is unethical for your agent to tell you that you must pay a commission or that if you don't, agents won't bring buyers to see your home.

Here are a few options:

- You can tell buyers' agents upfront what you are planning to pay them. You can do this by offering to pay the buyer's agent directly or by agreeing to pay both commissions to your agent to split with the buyer's agent.
- You can offer a concession that buyers can use to compensate their agents or for other expenses, such as repairs and closing costs.
- You can offer nothing upfront. When buyers submit offers, they might ask you to compensate their agents.

**Continue reading here** *(subscription may be required)*



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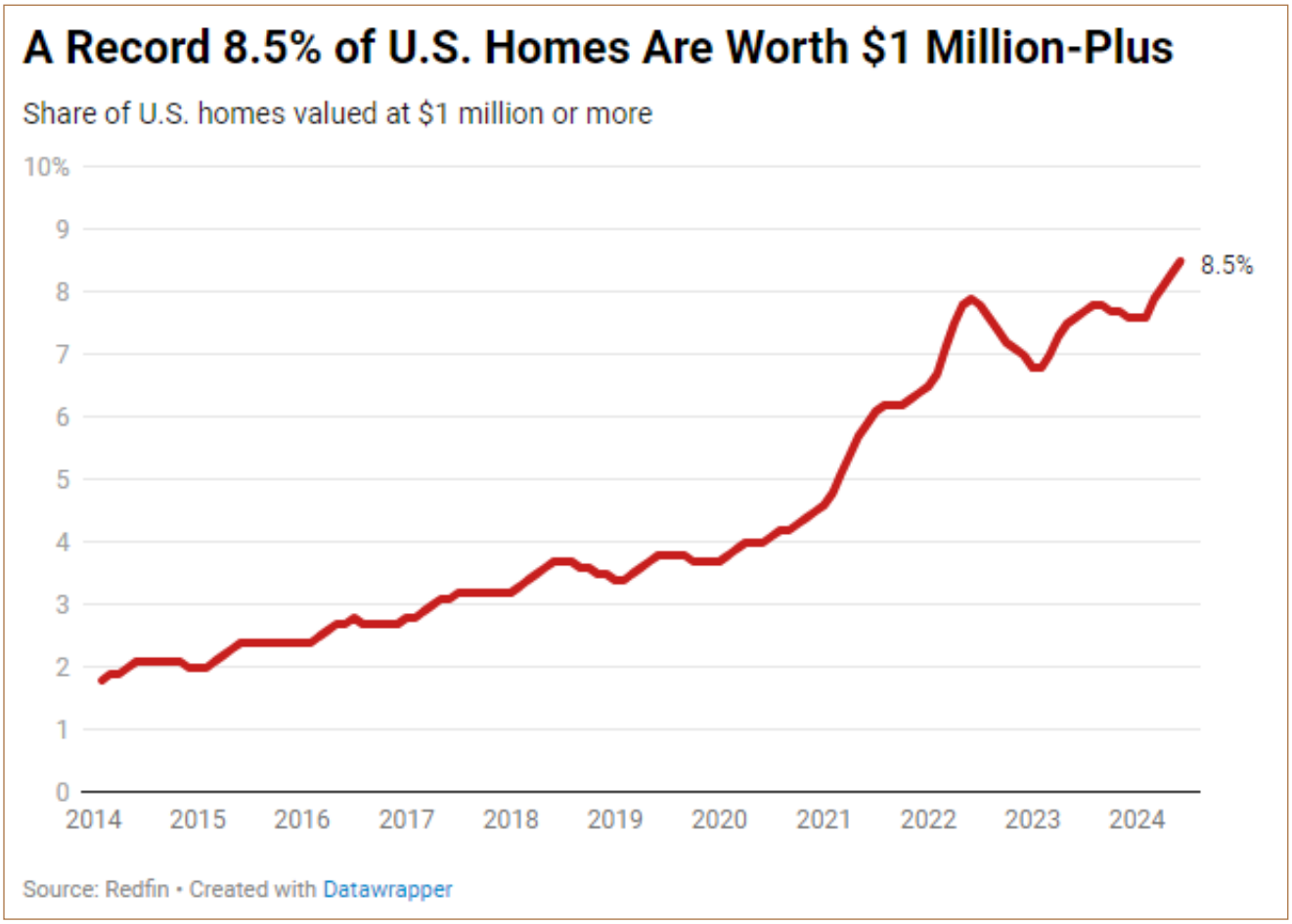
**A record 8.5% of U.S. homes are now worth $1 million or more (from Redfin News)...**

*Despite high mortgage rates pushing down demand, historically low inventory keeps pushing up home prices, and therefore values. That's good news for homeowners, but challenging for buyers.*

Nearly one in 10 (8.5%) U.S. homes are worth $1 million or more, the highest share of all time. That's up from 7.6% a year ago and more than double the 4% share before the pandemic.




This analysis estimated current home values using the **Redfin Estimate**, public records and MLS data, and past home values using public records and MLS data. The figures in this report represent June 2024, unless otherwise noted. In raw numbers, 8,022,439 U.S. homes were worth at least $1 million in June 2024, compared to 7,155,393 in June 2023 and 3,427,869 in June 2019 (before the pandemic began).





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The share of U.S. homes worth $1 million or more is at a record high because home prices are at a record high; the median sale price nationwide was **up 4%** year over year in June. While price growth has eased slightly since the start of 2024, prices have been rising on a year-over-year basis for the last year, pushing many homes over the million-dollar mark.

Prices are rising even more for homes that are already expensive: The median sale price of U.S. luxury homes **rose 9%** year over year to a record $1.18 million in the second quarter. Prices of luxury homes rising has an outsized impact on the share of homes worth at least $1 million because a major portion of them have long been on the cusp of hitting the million-dollar mark, and just did.

**Prices are rising despite slow homebuying demand because of a supply shortage**

Mortgage rates have been sitting at **more than double** pandemic-era lows since the start of 2022, pushing monthly housing costs to **record highs** and **driving down** home sales.

Soft demand would typically push home prices down, but prices have remained strong in the current market because a supply shortage is causing competition. While inventory has recently **improved**, it's still about 30% below pre-pandemic levels because many homeowners are **locked in** by low rates.

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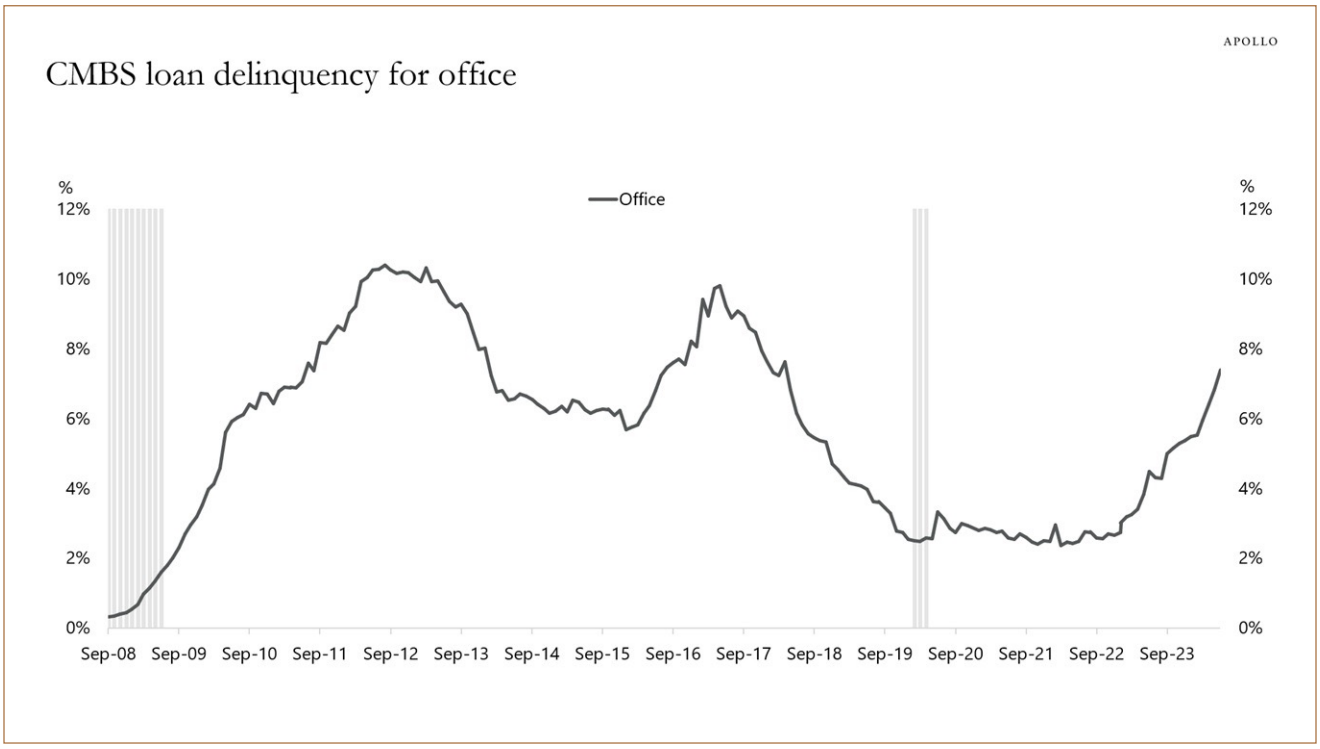
**Why it's still too early to buy distressed commercial real estate ("CRE") (from Torsten Sløk in The Daily Spark)...**

The argument for buying distressed commercial real estate today is that interest rates are about to come down. But if interest rates come down because of a recession, then buying distressed CRE today is not a good idea. If the economy starts to slow down more meaningfully, as the consensus expects, the problems for rental housing, multifamily, and warehouses will get a lot worse.





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**Homebuilders could benefit as housing affordability becomes a central focus in the upcoming elections (from Evergreen Gavekal)...**

In setting out their election platforms, both Democrats and Republicans want to address housing affordability, which has become a hot-button issue for US voters. Two and half years of tight monetary policy has left potential homebuyers unable to afford a new property and persuaded potential sellers that they should sit tight and keep enjoying cheap finance locked in years ago.

The issue has begun to have macroeconomic effects, with US housing permits and building starts for July hitting a post-2020 trough, while new home sales for June fell to the lowest level since last November. Investors, for their part, have looked through this soft patch and bid homebuilder stocks higher on the basis that anticipated interest rate cuts will gin up fresh demand. The issue that all participants in this gummed-up part of the US economy must consider is how impending government action may change the equation.

Both Donald Trump and Kamala Harris want to tackle housing affordability, with Trump mainly focusing on the problem of high mortgage rates, while Harris has outlined a more detailed plan that includes tax credits for first-time buyers and help with down payments. Harris also wants to give builders tax incentives to construct affordable rental housing and starter homes for first time buyers, with the aim of adding 3 million units in four years. This apparent political focus on offering housing support suggests that, one way or another, the US government will become more friendly to private homebuilders.

The US housing market should benefit from interest rate cuts, which are likely to begin in September given a softening of inflation. Lower oil prices will both help contain inflation and weigh on the pricing of breakeven inflation rates. These factors should depress mortgage rates and support housing demand. In addition, elevated building material inventories at wholesalers and a possible clearance for Freddie Mac to buy second mortgages should aid the sector and support homebuilder equities.

There are, however, two possible kinks to this generally rosy outlook for the US homebuilding sector.

1. As mortgage rates fall, some previously “trapped” existing homes may be released onto the market. The sharp rise in new mortgage rates relative to very low rates that homeowners secured before 2022 caused owners who may otherwise have looked to move, to simply



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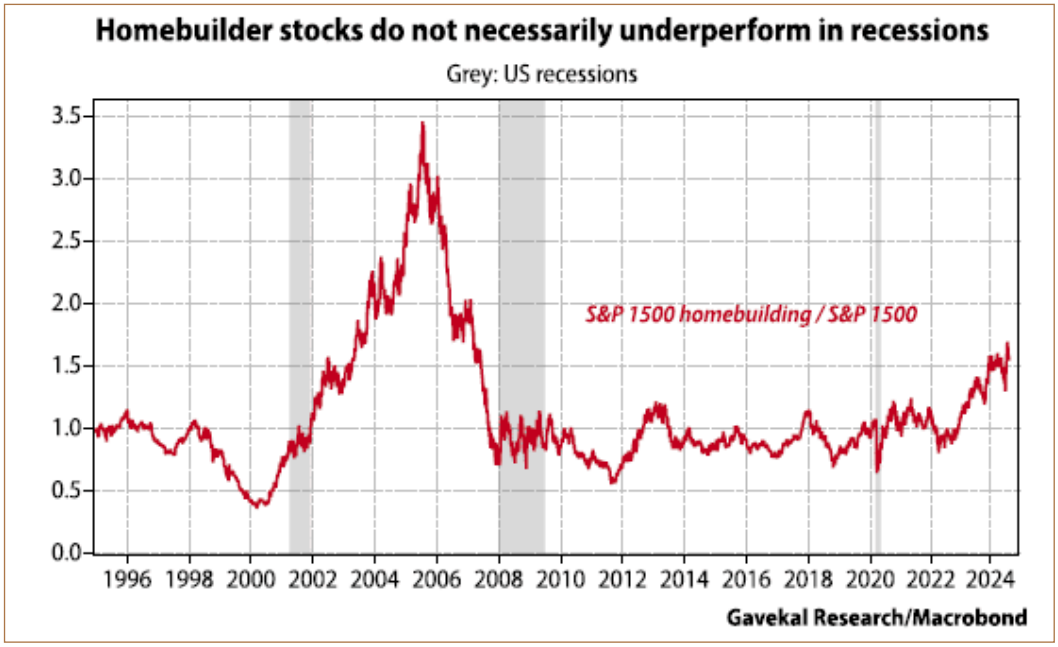
sit tight. This effect crimped supply in the used home segment and pushed buyers into the new-build market, which has been good news for homebuilders over the last two years. Hence, a looming decline in US mortgage rates is likely to spur more supply of existing homes and create a reverse effect, where the market for new properties becomes relatively less attractive.

2. A US recession would dent housing demand. This is not my base case, but the possibility cannot be ruled out, especially given July's softer than-expected payroll report. Such an outcome would assuredly hit homebuilder stocks hard, as falling household incomes will weigh on housing demand. At the same time, a US recession is likely to result in lower mortgage rates, which will improve future demand for property. In past recessions, it should be noted that US homebuilder stocks have not decisively underperformed the broader market.




All things considered, US homebuilder stocks should keep outperforming the broad market due to the likely support that the sector will get from the US government and the prospect of lower mortgage rates. The two drags mentioned above could, however, result in that relative performance component suffering higher volatility than would be usually expected.

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**However, Fed rate cuts may not necessarily be a panacea for housing (from TXMC via X)...**

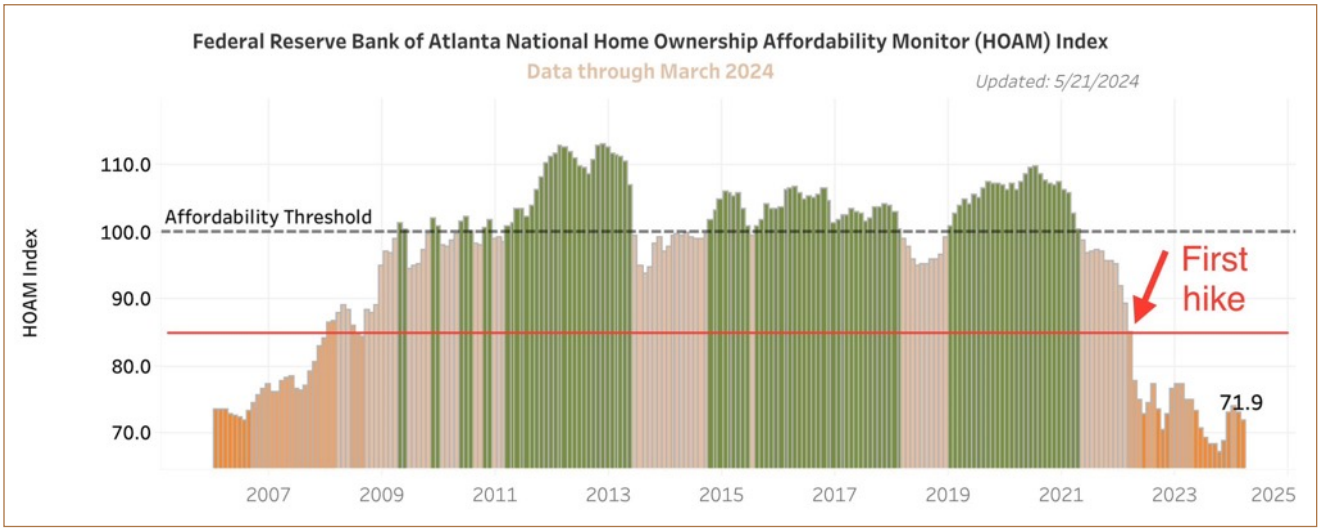
Housing is in dire straits and it isn't clear to me that rate cuts will alter the situation much at all beyond some marginal activity.

United States | Browse | 14:31:03 | 08/16/24 - 08/23/24
Economic Releases | All Economic Releases | View Agenda Weekly

| | Date Time | A | M | R | Event | Period | Surv(M) | Actual | Prior | Revised |
|---|---|---|---|---|---|---|---|---|---|---|
| 21) | 08/16 14:30 | | | | Housing Starts | Jul | 1333k | 1238k | 1353k | 1329k |
| 22) | 08/16 14:30 | | | | Building Permits | Jul | 1425k | 1396k | 1446k | 1454k |
| 23) | 08/16 14:30 | | | | Housing Starts MoM | Jul | -1.5% | -6.8% | 3.0% | 1.1% |
| 24) | 08/16 14:30 | | | | Building Permits MoM | Jul | -2.0% | -4.0% | 3.4% | 3.9% |
| 25) | 08/16 14:30 | | | | New York Fed Services Business Activity | Aug | -- | 1.8 | -4.5 | -- |

I have asked every housing bull I've found on this platform how they reconcile the worst home buying sentiment in a generation PRE HIKES, the worst home affordability in a generation PRE HIKES, home prices >6X median income which is ALL TIME HIGH, and 75% of outstanding mortgages locked in <5% which was last seen April '22 at 0.5% Fed Funds (after one hike).

No one has provided an answer.



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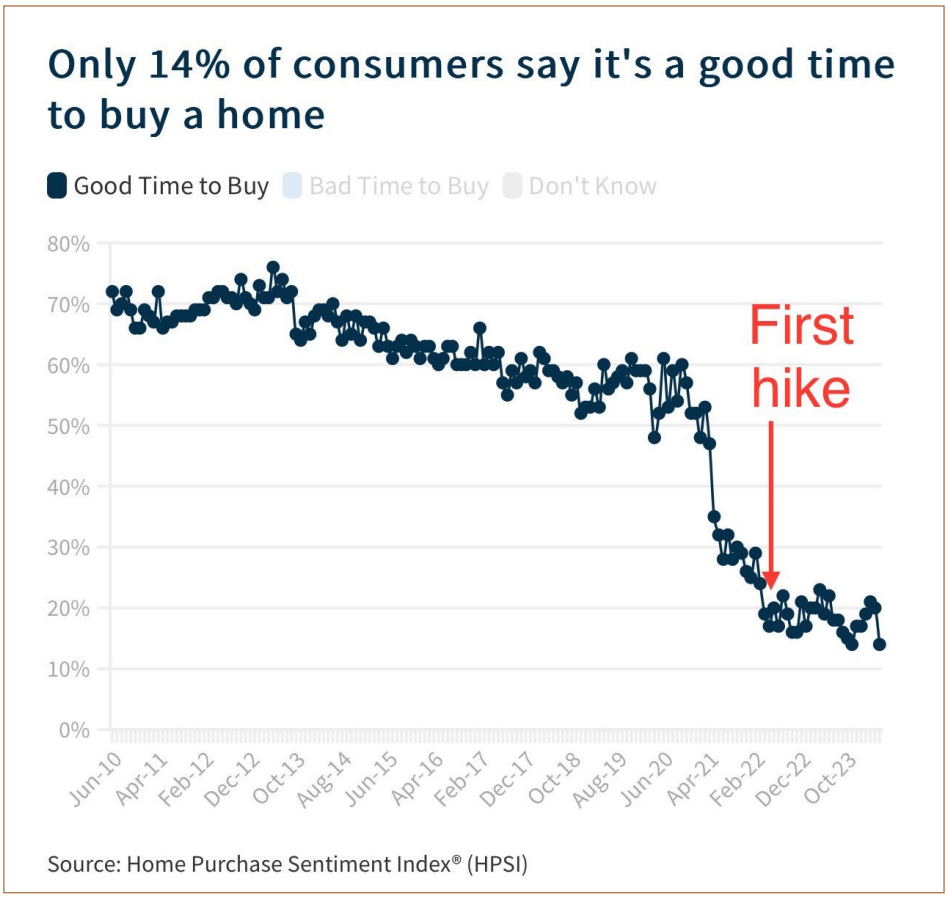


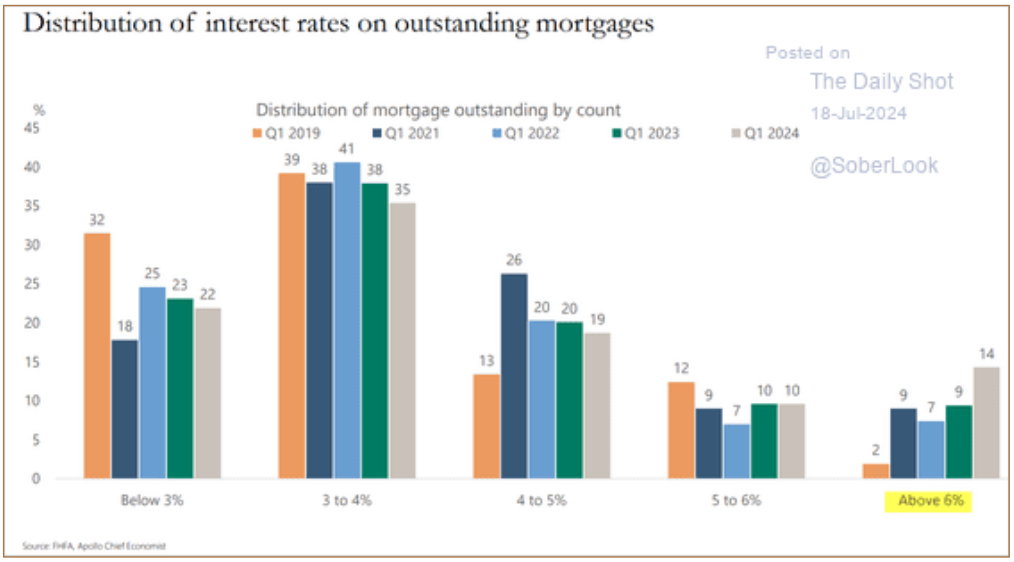






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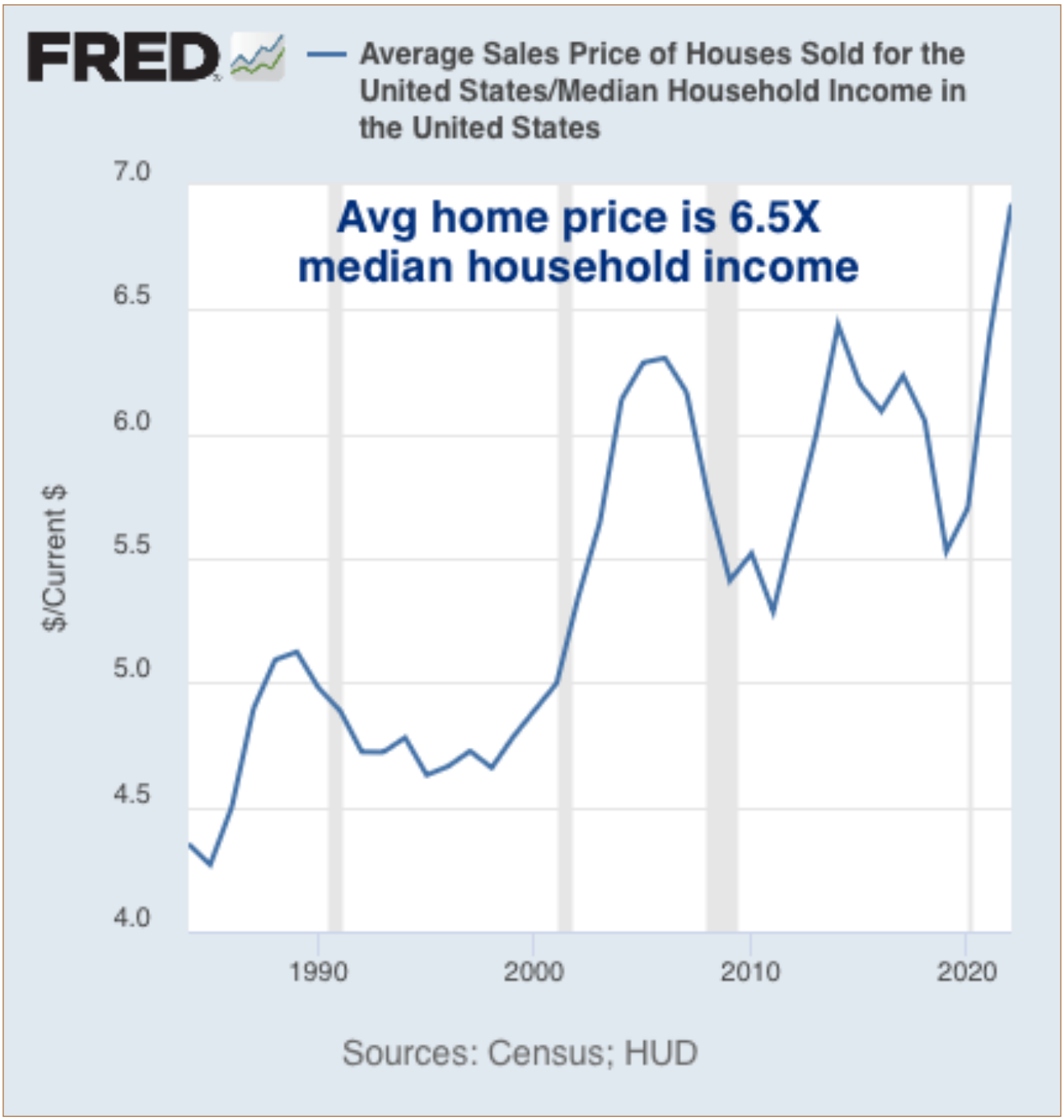




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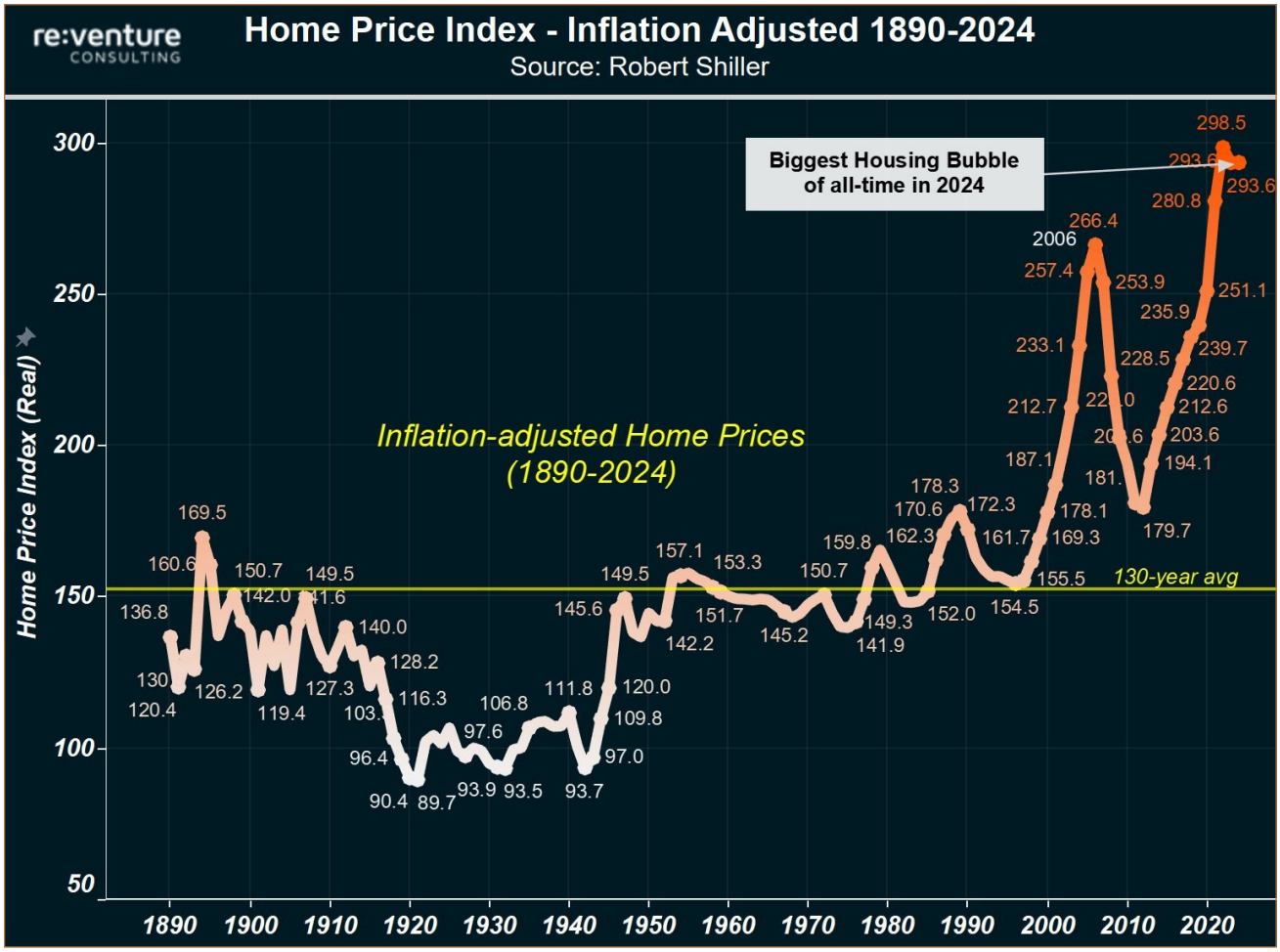
**This chart suggests housing could be in the midst of its biggest bubble in history (from Nick Gerli via X)...**

Inflation-adjusted home prices today are almost 100% higher than the long-term, 130-year average.

Only 2x in US history where this has ever happened: 2006 and right now.

Note how from 1890 to 2000, home prices were closely linked to inflation and never entered a national bubble.





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# SPECIAL SITUATIONS

## Activist Investing, Spinoffs, Arbitrage, Mergers and Acquisitions (M&A), and More

**A second big activist hedge fund took a stake in Starbucks this month (from *The Wall Street Journal*)...**

Activist investor Starboard Value has a stake in Starbucks and wants the coffee giant to take steps to boost its stock price, according to people familiar with the matter.

The size of the hedge fund's stake and its exact demands couldn't be learned.

Starboard's arrival comes as Starbucks is in talks to strike a settlement agreement with another activist, Elliott Investment Management. The Wall Street Journal reported that Elliott had built a sizable position in the Seattle company and was quietly pushing it to make changes.

If Elliott doesn't gain representation on Starbucks's board, it is possible the activist will pivot to launching a proxy battle for board seats. It isn't clear whether or not Starboard could also eye a seat in the boardroom.

**Continue reading here** *(subscription may be required)*



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**Elliott Management's monthslong Starbucks (SBUX) campaign got it an even better deal than it asked for (from CNBC)...**

In May, it was a $2.5 billion stake in Texas Instruments and a $1 billion-plus position at Johnson Controls. In June came a $2 billion stake in Southwest Airlines and an equally large investment in Japanese conglomerate SoftBank.

For a $69.7 billion hedge fund — even by the standards it has set — Elliott Management has operated at a scale and frequency this summer that's given even the most seasoned activism defense advisors pause.

But its biggest win this year was at Starbucks, beginning with private discussions over Elliott's multibillion-dollar stake and ending with a CEO change that investors and activists cheered.

It wasn't just the replacement of a deeply unpopular CEO in favor of a food-industry legend, nor the nearly unprecedented stock price surge that drove Starbucks shares to their best day in more than 20 years. It was that Elliott's monthslong push at the company resulted in an outcome that thrilled shareholders and pleased chairman emeritus Howard Schultz and the board itself.

It set the company on a "transformational" path through a deal, said one advisor who has worked with both activists and companies, that pleased just about everyone involved at Starbucks except former CEO Laxman Narasimhan.

**Private negotiations turn public**

By June, Elliott had amassed a Starbucks position that was worth some $1.9 billion and had begun conversations with the company, according to people familiar with the matter, who requested anonymity to discuss private matters freely. The activist investor's green-and-white letterhead has come to command the attention of directors and the media, who expect that the firm's plans will likely include the firing of an underperforming CEO. Narasimhan, who until Tuesday was the coffee chain's chief, seemed to fit that bill.

Starbucks stock had dipped about 24% since Narasimhan took the helm in March 2023. The company struggled with declining same-store sales in the U.S., where traffic fell 6% during the third quarter, and in China, the company's second-largest market outside of North America, where same-store sales plunged 14%.





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Elliott met separately with Narasimhan and then-Chair Mellody Hobson in late June, the people said. The company was still reeling from its disastrous earnings report and slowing worldwide demand. The activist's representatives underscored in both meetings that immediate action was needed, the people said.

But Elliott didn't ask Starbucks to fire Narasimhan, CNBC has previously reported.

**Operational overhaul and boardroom fractures**

Rather, in early July, it laid out a detailed presentation to Starbucks' board that focused on a strategy overhaul, with a particular focus on Starbucks' lagging China business and board changes, said the people familiar with the matter.

And unlike some of its other campaigns — Southwest and Texas Instruments, for example — it kept those conversations private.

Elliott felt the talks were constructive, but it made clear that significant changes were warranted, lest Starbucks' underperformance become so drastic that public action — through one of Elliott's vaunted letters, possibly — be required, the people said.

News of the activist's position at the company nonetheless broke in The Wall Street Journal on July 19, setting off a flurry of attention and scrutiny. Reporting in the following days focused on the lingering influence of Schultz, including a Financial Times story that the founder of the company was opposed to the deal Elliott had offered.

Negotiations continued, and the activist's representatives met with roughly three-quarters of the company's board in more informal settings through July and into August, the people said. But the conversations played out against the backdrop of persistent leaks that people familiar with the deal said could only be coming from the boardroom.

**A surprise departure**

Elliott had not expressed any explicit desire to bring on a new CEO, but those involved in the discussions feel certain the board would not have pursued Chipotle's Brian Niccol as a CEO replacement without pressure from Elliott.

Hobson, who stepped down as chair to become lead independent director concurrently with Niccol's appointment, said on CNBC's "Squawk Box" that the company didn't have any discussions with Elliott about Niccol's appointment.

**Continue reading here**



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**Here's a list of event-driven trade ideas that are potentially actionable today (from ToffCap)...**

## SPIN-OFFS (and related)

- ***Lionsgate (LION US)***. Spin-off of the movie / TV studio business estimated in September. Lots of action with bondholders forming a bond group to block the spin, and appear to be succeeding. UPDATE (Jan 7, 2024) Now intends to spin studio business via SPAC Screaming Eagle (SCRM US). UPDATE (June 17, 2024) SPAC-deal completed.
  **UPDATE (August 19, 2024) Shares are roughly -30% since listing (August 16). Might be interesting to keep on the watchlist as SPAC listings often get (seriously) discounted while LION does have a few good franchises. Also, overall cinematic revenues are still been pressured by past Hollywood strikes, which should improve as of Q4 24. Still no coverage.**
- ***Seaport Entertainment (SEG US)***. Recent Howard Hughes (HHH) spin. Shares roughly -20% since listing. Classic pre-coverage period.

## STRATEGIC ALTERNATIVES (potential take-outs, asset sales, M&A, etc.)

- ***TransAct Technologies (TACT US)***. Interesting net cash micro-cap with an actual product 'actively assessing strategic alternatives, including a sale'. Stock has been hammered over the past months.
  **UPDATE (August 19, 2024) TransAct is showing positive signs of its restructuring, and the company recently disclosed that it 'has engaged with a number of outside parties since the previous update in June and is in various stages of discussion with such outside parties'.**
- ***Microvast (MVST US)***. Busted 2020 SPAC Microvast is exploring alternatives to enhance liquidity. The company is showing very strong revenue growth and gross margin expansion, but will need further cash to fund its growth. That said, the shares have been obliterated and there's some solid revenues and perhaps a few interesting assets on the b/s (just glancing though), which might provide for an interesting set-up.
- ***Green Plains (GPRE US)***. Announced it will evaluate strategic alternatives. Activist Ancora is pushing for a sale of the company.





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**UPDATE (August 19, 2024) Green Plains hired a financial advisors to assist reviewing strategic alternatives. As a reminder, there's been a ton of m&a action in this space. Ancora previously estimated that the company could sell for >$50 p/s - compared to $14 today (16/08).**

- ***Newpark Recources (NR US)***. Initiated a strategic review for its Fluid Systems business, with options including selling the entire segment or winding down its working capital. Divestment could generate $200m, and will increase the quality of the business. UPDATE (March 1, 2024) Strategic review expected to be completed mid-2024.
  **UPDATE (August 19, 2024) Newpark disclosed that the company is working 'tirelessly' to complete the sale of the Fluid Systems division.**

- ***Stronghold Digital Mining (SDIG US)***. Stronghold Digital Mining initiated a strategic review to explore alternatives to maximize shareholder value, including a potential sale of all or part of the company or other strategic transactions involving its assets. No definitive timetable has been set for the completion of the review process.
  **UPDATE (August 19, 2024) Stronghold recently noted that it 'has received numerous bids for all or parts of the company'.**

- ***MEI Pharma (MEIP US)***. Clinical stage biotech, attempting to merge with Infinity Pharmaceuticals (INFI US). Interesting dynamics given activists pressuring the company + potential liquidation in case of failure to merge. Cable Car and Anson Advisors nominated new directors. Sounds like 'fight' is becoming more aggressive.
  **UPDATE (August 19, 2024) After strongly reducing costs (first step before liquidation / sale), MEI hired a financial advisor to help reviewing strategic alternatives.**

## NOTICEABLE LARGE BUYBACKS

- ***Frontdoor (FTDR US)***. Recently announced a $650m buyback, roughly 18% of the current market cap (August 16). The company reiterated its strong outlook and healthy markets.

- ***Phinia (PHIN US)***. Old TMM highlight Phinia announced a $250m buyback, roughly 13% of the current market cap (August 16). Phinia has some strong tailwinds, and the company is confident it can continue to improve its free cash flow generation.



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- ***Cryoport (CYRX US)***. Initiated a $200m buyback program, or c. 45% of the current market cap (August 16). Cryoport also announced to buy back $160m of converts.
- ***Cineplex (CGX Canada)***. Cineplex approved a NCIB (max. 10% of s/o). The company is positive on improving fundamentals as the market recovers from the Hollywood strikes.
- ***Enova (ENVA US)***. Announced a new $300m share buyback, c. 14% of the current market cap (August 16).
- ***LiveRamp (RAMP US)***. Recently boosted its repurchase authorization by $200m to $1.3bn. We know nothing about this company, but according to BB estimates operating earnings are expected to massively grow over FY24 and the next few years. LiveRamp has c. 20% of its market cap in net cash (August 16) and is trading at roughly 10x ev/ebitda on FY24e for >20% ebitda growth p.a. over the medium term. Stock based comp has been massive, but ccs is projecting positive FCF going forward.

## INTERESTING INSIDER PURCHASES

- ***GrowGeneration (GRWG US)***. GrowGeneration is exploring strategic opportunities for its benching, racking, and storage business, MMI. Screens like an interesting play given (under the radar) ramp of distribution and e-commerce business.
  **UPDATE (August 19, 2024) Insiders have recently been buying in the open market, which doesn't happen very often. GrowGeneration recently unveiled a restructuring plan to cut $12m costs.**
- ***Vimeo (VMEO US)***. We note that insiders bought quite a bit after (!) the recent strong price move following a good set of results. With ~37% of the market cap in net cash (16/08) and inflecting and growing operating earnings and cash flow, Vimeo screens interesting at ~13x FY24e ev/ebitda. Also, the company has a buyback running.
- ***NCR Voyix (VYX US)***. Speculation regarding the potential sale of the Digital Banking unit (roughly 25% of pre-corp ebitda). Sale would unlock the strong SOTP dynamics, with >70% upside on our (back of the envelope) estimates. Remainco seems cheap as well.
  **UPDATE (August 19, 2024) Nice to see insiders buying in the open market in this battered names surrounded by speculation of a potential sale.**





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- ***Ambac (AMBC US)***. Insiders at Ambac recently acquired a substantial amount of shares in the open market. This was the first open market purchase in quite some time and comes after the shares dropped quite a bit following earnings. Shares at multi-year lows.
- ***Orion (OEC US)***. Another company which has seen its share price drop (~30%), where insiders acquired quite a bit in the open market - with generally little activity.
- ***Geo Group (GEO US***). Interesting to see the Chairman / Founder of Geo adding quite substantially in the open market. Often a good sign to see insiders buying when the stock moves.
- ***Aclaris (ACRS US)***. Aclaris is another one (i.c. net-cash busted biotech, -45% workforce reduction, 'evaluating strategic alternatives'). Guesstimating (mainly assumptions for cash burn going forward and value NOLs), we can see a bear-bull case of $1-3 per share here, or -20% to +140%.UPDATE (July 15, 2024) We note the VERY strong acceleration of open market purchases by BML Investment Partners (Leonard Braden) in recent weeks. Like, a LOT. Will not take long.
  **UPDATE (August 19, 2024) Aclaris announced a few asset sales, and BML continues its open market purchase spree.**
- ***OneWater Marine (ONEW US***). A flurry of insider purchases in August after a long period with little activity. OneWater is experiencing some market headwinds, but insiders seem confident this will not last.
- ***Custom Truck One Source (CTOS US)***. Continued open market purchases by insiders in this interesting company. Trading at ~7.5x FY24e ev/ebitda for mid-teens % growth over the next few years and solid cash flow generation (according to BB cons), CTOS could have an interesting time ahead.

## 'INTERESTING' SITUATIONS (but not exactly event-driven or special sit.)

- ***Sky Harbour (warrants) (SKYH US)***. We highlight the warrants on this Q1 22 de-SPAC. While not yet visible in the numbers, Sky Harbour should experience a significant and relatively high quality acceleration of earnings growth over the next years as of FY25. The company is experiencing secular demand/supply tailwinds which should sustain the company's targets of 50 airports over the medium term. While the stock is interesting, the



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r/r on the warrants seems attractive, with another 800+ days runway (when the growth acceleration should already be visible).

- ***Sankyo (6417 Japan)***. Old value trap that seems to have seen the light. Good cash flow generator trading at roughly 3x ev/ebit, with ~40% of market cap in net cash (16/08). Sankyo bought back >20% of s/o over the past year and has been gaining a healthy amount of market share. Very interesting value play.
- ***Urban One (UONEK US)***. Urban One provides radio broadcasting services. Classic ex-growth company in an ex-growth industry. But while revenues and earnings over the past years have gone nowhere (ic stable), cash flow generation has remained sustained, which was used to pay down debt. With the stock price absolutely hammered, this one might be interesting to keep an eye on, as Urban continues to delever.
- ***John Wood (WG/ UK)***. John Wood's share price got clobbered after Dubai's Sidara walked away from acquiring the company. Shares plunged ~35% since (16/08) and are still hovering around multi-year lows. Nonetheless, the company is targeting to generate significant cash flow as of next year, which might be an interesting moment.
- ***Lifecore Biomedical (LFCR US)***. Strategic alternatives. Potential buy-out. Demand for similar CDMO assets is high. Large shareholders pushing for sale. Potentially 75-100% upside. UPDATE (Jan 7, 2024) LFCR expanded and extended its CDMO activities with main partner Alcon. Reiterated to continue to actively evaluate strategic alternatives; still working on refiling. Trigger could be imminent. UPDATE (April 8, 2024) Stock is depressed after the 'failure' of the sale. Might earn $80m ebitda with the expansion by FY27. At 10x (pretty low) and $200m debt (rough figs) that's 3x in a few years.
  **UPDATE (August 19, 2024) Lifecore recently filed a batch of several 10-Q's which should finally bring the company current on its financials. This has been a major hangover for the stock, and possibly the main reason of the large valuation discrepancy compared to peers. Multi-bagger potential IF these company-specific issues are finally resolved.**
- ***Rockwell Medical (RMTI US)***. We highlight this interesting micro-cap which seems to be inflecting positively on its turnaround. We know Fresenius a bit and are aware of them losing customers to Rockwell (although almost negligible revenues for Fresenius). The company has a history if operating losses, but inflected positively over Q2. Multi-bagger potential if this trend continues given very little / no growth reflected in the valuation.





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- ***Bloomz (BLMZ US)***. We note the absolutely obliterated IPO of Bloomz, down >70% since its IPO in July. No idea about the company, but interesting action. No coverage (yet).
- ***Bpost (BPOST Belgium)***. We note the completely hammered share price of Bpost, Belgium's postal operator. There's a ton going on here, with a relatively new mgt team, new national framework for delivery of newspapers and the (very large) acquisition of 3rd party logistics provider Staci. All this, incl. the previous' issues at the managerial level, have smashed the share price.
  **UPDATE (August 19, 2024) bpost recently closed its transformative acquisition of Staci. To note that >50% of operating earnings are from 3rd party logistics services - and these earnings are currently cyclically depressed. Extremely large SOTP potential IF able to unlock.**

## MISCELLANEOUS (liquidations, merger arb., out-of-bankruptcy, uplistings, etc.)

- ***Metaplanet (3350 Japan)***. Metaplanet is planning on raising roughly $70m with a rights offering and buy Bitcoins. We always keep an eye on these kinds of transactions as they might involve a good deal of volatility (hence opportunity). 1-1 ratio; excercise price of Y555 (current share price Y1129 (16/08)).
- ***Dun & Bradstreet (DNB US)***. DNB received 'inbound interest from third parties and has retained Bank of America to assist with those inquiries'.
- ***Howard Hughes (HHH US***). We highlighted HHH regularly in the past in the Insider Purchases section, noting how Ackman (Pershing Square) continues to gobble up shares in the open market. PS sits now at ~37% and recently indicated that it was considering an offer to take-out HHH. We are not surprised, and note the interesting timing - i.c. so soon after the recent spin of Seaport Entertainment (SEG). NAV is >$100 p/s (though would probably not be fully hit in a take-over).
- ***Capri Holdings (CPRI US)***. Merger arb. Takeover bid from Tapestry (TPS) at $57 p/s. Massive spread, >70% spread (16/08). While already approved by shareholders, the FTC is sueing to block a deal, citing that the combination would result in a too large a player. Trial date in September. Outcome will probably depend on how the market is defined. Also, we note Einhorn's involvement in this one.



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- ***Desktop Metal (DM US)***. Merger arb. Old TMM highlight Desktop Metal is to be acquired by Nano Dimension for $5.50 p/s, roughly 35% above the current share price (16/08). However, the take-over price is subject to quite a few adjustments and could end-up much lower around $4.0 (hence the spread).
- ***Trinity E&P (TRIN UK)***. Merger arb. The acquisition of Trinity by Lease Operators is progressing well, with the company recently announcing that the first batch of approvals has been granted. Spread still around 16% (16/08). Interesting for smaller accounts which can handle more illiquidity.
- ***Matterport (MTTR US)***. The last merger arb of today, Matterport is to be acquired by CoStar for $5.50 p/s (50/50 cash/shares), roughly 30% above the current share price (16/08), with the spread mostly the result of antitrust approval risk. If one could get comfortable about the combination, this might be an interesting deal to look at.
- ***OCI (OCI NA)***. One of the most interesting opportunities on our screens for 2024 in the larger mid-cap space. OCI is trading at 2.5-3x ev/ebitda on a pro-forma basis after the announcement of two large division sales. Peers are trading at 5-7x (on what I would argue are low multiples). UPDATE (May 21, 2024) This first special divided of EUR 4.5 p/s was announced (~18% yield). Roughly EUR 9 more to come. Improving operations and continued ongoing strategic review. OCI now mentions significant inbound interest in the continuing operations.
  **UPDATE (August 19, 2024) OCI's 'liquidation' continues, with the company recently annoucing that it would sell its Clean Ammonia assets for $2.35bn in cash. This comes on the back of previous large asset disposals and special dividends announced. Despite all the action, OCI's share price is just at the level of a few months ago. We estimate still >40% upside as the asset sales are realized.**





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**This undervalued company could become the target of a "forced" takeover (from Undervalued Shares)...**

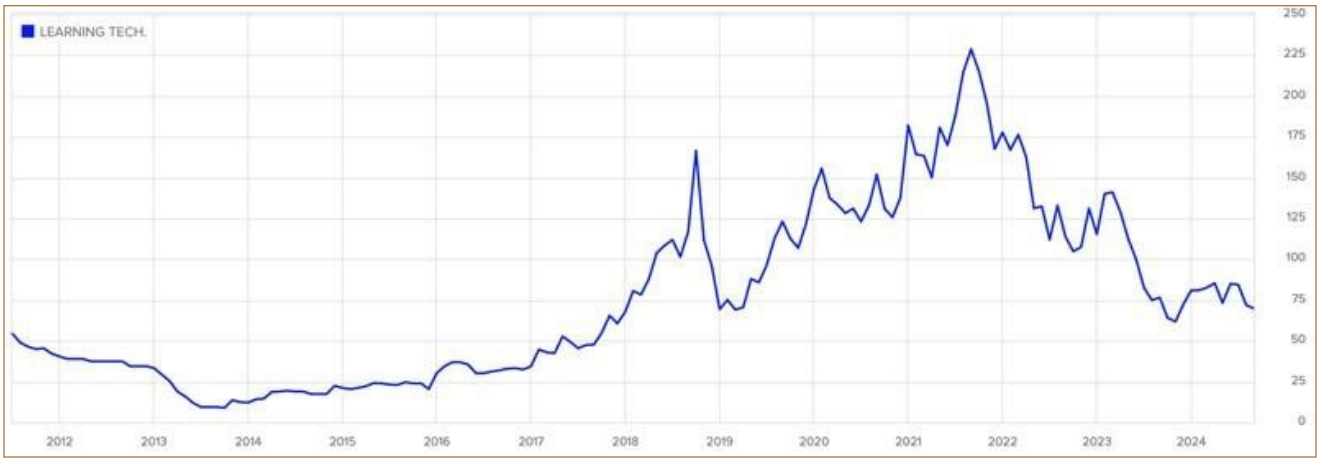
Given geopolitical developments, Uncle Sam has become coy about handing sensitive government work to foreign-controlled entities – which extends even to British companies, such as London-listed Learning Technologies Group.

The global leader in e-learning, talent management, and talent acquisition has over 5,000 employees in 35 countries and generates revenue of GBP 560m (USD 730m). It also provides services to the US government that involve the handling of classified information.

Will Learning Technologies Group have to flee into the arms of American ownership?

Could this yield a lucrative bid for outside shareholders?

Undervalued-Shares.com takes a closer look at what might be a unique situation among British takeover targets.




**From highflyer to laggard**

What is today **Learning Technologies Grou**p (ISIN GB00B4T7HX10, UK:LTG) started in 2013 as Epic Group, then a leading e-learning group. The company took over a listed cash shell by way of a reverse takeover. The stated aim of the transaction was to create a vehicle with access to capital markets. The company's management planned to pursue a buy-and-build strategy and create one of the world's leading businesses for learning technologies.



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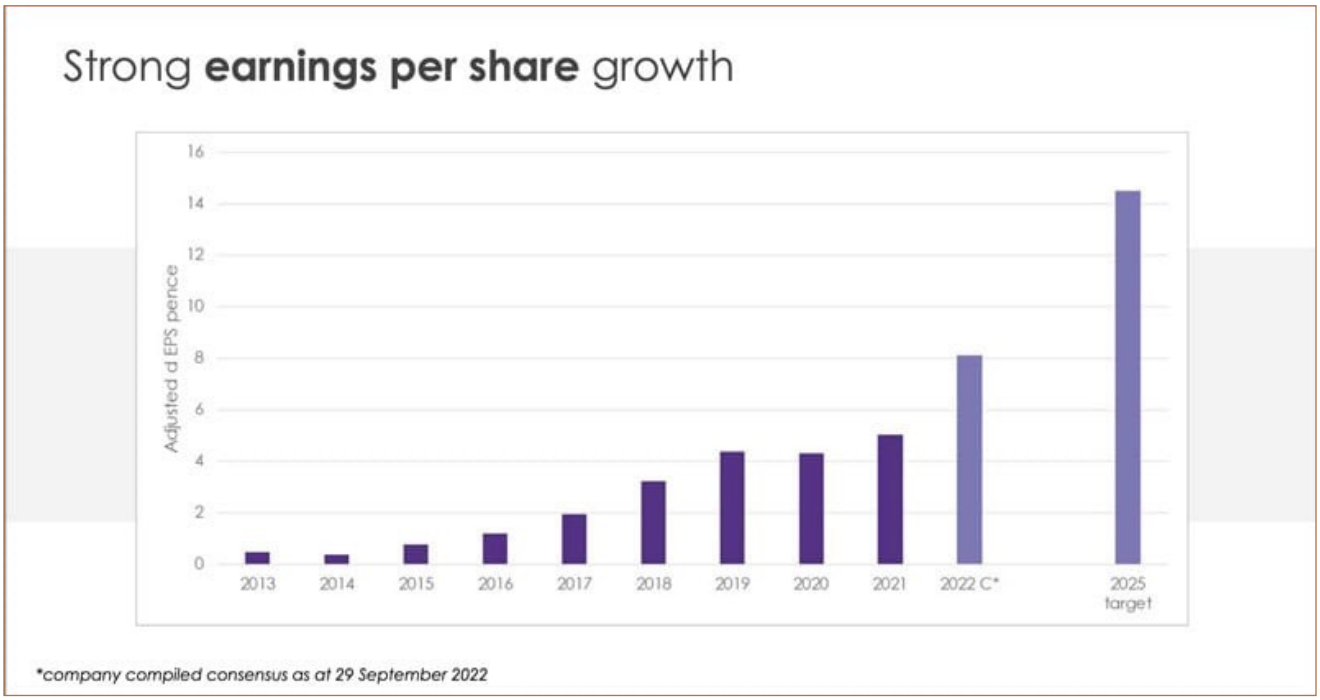
And it did! A total of 17 acquisitions followed, and shareholders benefited significantly. Earnings per share multiplied, and so did the share price – by 2,300% between 2013 and 2021, from 9.5 pence to 228 pence.




*Source: Learning Technologies Group.*

The acquisition spree was funded through a combination of equity and debt. Back then, equity markets were buoyant, and debt was cheap.

How times have changed.

Interest rates rose, equity market valuations for mid-sized British companies contracted, and the recently rather iffy macroenvironment made large corporations reconsider their budgets for learning and training.

Since its peak three years ago, the stock of Learning Techologies Group has lost 70% of its value.

Forced by markets to reconsider its strategy, the company recently pursued a different approach.

Under the mantra of "active portfolio management", Learning Technologies Group has been selling off some of its portfolio companies. In fact, it's remarkable just how often management has referred to "active portfolio management" in recent communication with shareholders.





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**Streamlining and deleveraging the group**

After the rapid-fire acquisitions of the 2010s, Learning Technologies Group decided to sell its subsidiaries Lorien, a specialist for engineering solutions, and TTi Global, an external staffing business. These two businesses had only found their way into the company's portfolio because they were part of the package in a large acquisition in 2021. Lorien and TTi didn't really fit into the strategic focus on learning and talent management, so they were first to go when management started to clean up the group's portfolio. The resulting sales proceeds of USD 22.2m went towards deleveraging the group's balance sheet.

Another streamlining took place by merging smaller entities into the group's larger businesses. Watershed was merged into Rustici, LEO into GP Strategies, and Reflektive into Bridge.

June 2024 brought a watershed moment in Learning Technologies Group's current efforts to streamline its portfolio. The company sold VectorVMS, a vendor management platform for contingent labour, to PIXID Group, one of the largest vendor management platforms in Europe. Learning Technologies Group pocketed USD 50m as a result.

VectorVMS had also found its way into Learning Technologies Group's portfolio because it was part of a larger group that was acquired in 2018. At the time, Learning Technologies Group spent USD 150m to acquire PeopleFluent, a company offering talent management solutions for regulated industries. Within that group sat two divisions that were so different from the rest of the business that they were immediately separated from the rest of the group. VectorVMS and a firm called Affirmity have since been run as an independent business and brand.

In its 2022 Capital Markets Day, Learning Technologies Group had stated the combined value of these two firms as USD 35m. Now that ONE of them has been sold for USD 50m, it makes you wonder what the other one – Affirmity – may be worth, not the least because Affirmity is reportedly larger than VectorVMS. It's no surprise then that in recent times Learning Technologies Group repeatedly stated that the stock market was currently not putting enough focus on just how much value was sitting within its portfolio of companies.

That's also the judgment of one particular investor who is worth listening to.

**A quiet billionaire who never sold a share**

You'd be forgiven if you have never heard of Andrew Brode, the 84-year-old British tech entrepreneur.



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Even though Brode temporarily built a GBP 1bn fortune, he "has shunned the limelight", **as Forbes once wrote in an extensive feature**.

However, Brode's fortune has shrunk considerably since 2021, mainly due to his biggest holdings, two companies listed on the London Stock Exchange.

With a 14.85% stake, Brode is the single-biggest shareholder of Learning Technologies Group. At its peak, that stake will have been worth GBP 273m. Today, it's worth a more modest GBP 82m. Brode's 24.5% stake in RWS Holdings (ISIN GB00BVFCZV34, UK:RWS), a service provider for translations and localisation of content, is still worth GBP 170m, but it's down 73% since April 2021 when it was worth GBP 630m.

Like many others, Brode is known to be frustrated with valuations granted to mid-sized tech companies listed in London.

For several years now, an increasing number of British companies have considered to delist in London in favour of a listing in the US. Much as that isn't a panacea, it is notable just how much more dynamic the US market is.

*The Conversation* reported in a 23 April 2024 feature:

> **"Why is the London Stock Exchange losing out to the US – and can it stem the flow?**
>
> Two decades ago, UK-listed equities accounted for 11% of the MSCI World Index, which tracks the global equity market. Now they represent a meagre 4%.
>
> Since 2020, several LSE-listed companies, including Cambridge-based biotech firm Abcam, plumbing supplier Ferguson and packaging firm Smurfit Kappa Group, have moved to the US.
>
> Most recently, oil and gas giant Shell has threatened to do the same. In 2023, the Nasdaq raised US$13 billion (£10.4 billion) while the LSE managed US$972 million from the companies floating on it.
>
> The aggregate market capitalisation of LSE-listed equities went down to US$3 trillion in February 2024, from US$4.3 trillion in 2007, whereas the US market has grown three-fold to US$53 trillion.





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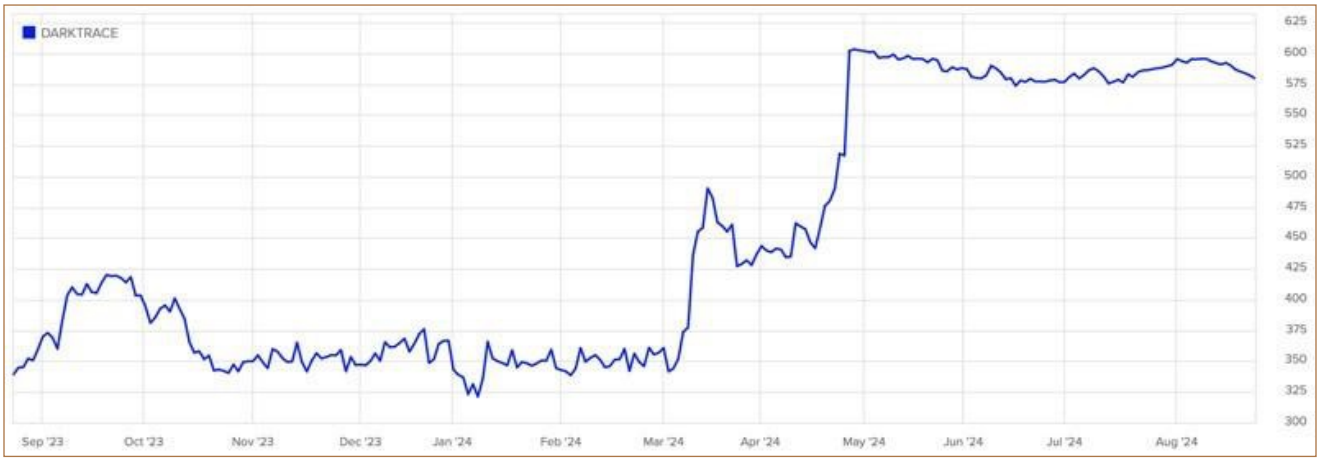
> More than 30 companies with market capitalisation over £100 million are leaving London's public equity markets. Thirteen companies have undertaken and completed takeover bids and 17 companies delisted."

Undervalued-Shares.com had reported early and repeatedly about the wave of takeover bids for British companies. American investors, in particular, are comfortable with buying British companies. Just recently, American private equity firm Thoma Bravo struck a GBP 4.3bn deal to buy British cyber security company Darktrace (ISIN GB00BNYK8G86, UK:DARK) in an all-cash transaction. **Darktrace shareholders bagged a 44% premium compared to the average price in the three months preceding the transaction.**




Another recent high-profile case is that of Hargreaves Lansdown (ISIN GB00B1VZ0M25, UK:HL), the UK's leading investment platform for retail investors. Shareholders received a 54% premium, even though that price was still too low by the look of it. **Hargreaves Lansdown's founder, Peter Hargreaves, decided to roll over half of his stake into the new private equity structure**. He wanted to remain invested, because he believed in the long-term growth prospects of the business that he built.

Could something similar happen at Learning Technologies Group?

There is a logic behind asking just that question, and to ask at this particular moment in time.

**American ownership as a must?**



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**In 2021, Learning Technologies Group launched a takeover bid for US-based GP Strategies Corporation**, then one of its biggest competitors for digital learning and talent management. The USD 394m transaction was Learning Technologies Group's biggest-ever deal.

While GP Strategies remains the company's biggest pillar, it recently developed a nasty problem.

The American subsidiary also handles sensitive work for the US government, and this has become an issue in today's geopolitical circumstances. As a UK-controlled company, GP Strategies has recently become ineligible to work on new classified contracts for Uncle Sam.

As if the increase in interest rates and the tougher macroenvironment weren't enough of a challenge already for Learning Technologies Group, it now also has a US regulatory issue. The amount of business affected by this is comparatively small, but investors don't take kindly to public companies that run into actual regulatory issues with Washington, DC.

What's an undervalued British tech company to do in such a situation?

Flee into the arms of American private equity would be one possible solution.

Learning Technologies Group has no dominant shareholder. Brode and his sidekick Jonathan Satchell control a combined 24.14%, and one would assume they aren't sellers per se given the compelling long-term growth potential of the industry. However, they will be frustrated with the persistently low valuation of their company on the London market.

The remainder of Learning Technologies Group is mostly in the hands of large fund managers: the six largest fund managers with stakes in the company own a combined 36%. These owners wouldn't ever have any loyalty to a company and sell out if someone made a reasonable bid. Never mind all the other frustrated holders and how they would react to the possibility of bailing out on the back of a decent cash offer.

Could Brode and Satchell even have an interest in facilitating such a bid?

Learning Technologies Group is certainly vulnerable to a bid, even a hostile one. American control of the company would automatically make the issue with Uncle Sam go away.

Combine these logical possibilities with the current tendency of British companies to look to the American market for higher valuations, and you have what is probably a bid situationwaiting to happen. Though based on what is known about Brode and Satchell, they'd then probably want to negotiate a roll-over and remain invested – like Stephen Hargreaves did.





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Some in London are currently speculating about such a chain of events – and these rumours are probably only going to get louder.

**A catalyst for a bid soon**

Takeover situations can drag on forever. There is always the risk of being stuck in a value trap.

In the case of Learning Technologies Group, one little-known factor could lead to a bid coming in sooner rather than later.

When the company acquired PeopleFluent in 2018, two subsidiaries were kept independent from the rest of the newly formed group – VectorVMS, and Affirmity.

VectorVMS has already been sold, and Affirmity could be next. Learning Technologies Group's management has been speaking a lot recently about its aim of active portfolio management. Affirmity is not part of the core portfolio, so it's only logical to conclude that it's next to be sold. That firm's market position in so-called "Diversity, Equity and Inclusion" could make it a desirable target for some bidders. In fact, some industry circles speculate that its sale could yield up to USD 100m. It would mean that the two non-core divisions that were part of the 2018 PeopleFluent acquisition yielded as much in a sale as Learning Technologies Group paid for the entire acquisition.

If that scenario were to play out, Learning Technologies Group's undervaluation would become even more visible than it is already.

Following the sale of VectorVMS, Learning Technologies Group had reduced its remaining debt to just GBP 6m. Management has achieved a complete deleveraging of the company, which is a remarkable milestone. Given its current market cap of GBP 554m, Learning Technologies Group now has an enterprise value of GBP 560m. Management is currently guiding for 2024 revenue of GBP 480-500m (following disposals) and EBIT of GBP 88-93m. Taking the mid-point of the EBIT guidance leaves the company valued at just over 6x EBIT.

An estimated 30-40% of the group's revenue is from its software business, which tends to be valued at closer to 12x EBIT in M&A transactions. Its consulting divisions would probably fetch around 9x EBIT. Learning Technologies Group stock should attract a premium of 40-50% if (or when) someone decides to bid.

**Continue reading here**



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**Notable executive departures disclosed this month (from The Bear Cave)...**

1. CFO of **Guess? Inc** (NYSE: GES — $1.15 billion) "is stepping down to pursue another opportunity that will bring him closer to his family" after a little over one year. The company has had four different CFOs over the last five years.
2. CFO of **Dentsply Sirona** (NASDAQ: XRAY — $5.13 billion) will resign "effective November 7, 2024, to pursue another opportunity" after a little over two years. **Earlier this month**, the company's Chief Accounting Officer resigned "to pursue another opportunity" after two years. Last year, the company's Chief Legal Officer and Chief Human Resources Officer both departed according to their LinkedIn profiles. And in 2022, the company's CEO was "terminated" and the company's CFO departed amid "**an internal investigation into certain financial reporting matters**" which ultimately led to a restatement of the company's 10-K for 2021.
3. Chief Product and Digital Officer of **Shutterstock** (NYSE: SSTK — $1.22 billion) "was notified that his employment will end, effective August 23, 2024" after one and a half years.
4. Principal Accounting Officer of **Deluxe Corp** (NYSE: DLX — $902 million) resigned after two and a half years. The company has had five different CFOs in the last ten years.

*Data for this section is provided by VerityData from VerityPlatform.com*

**Continue reading here**





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**An attractive bet on a higher offer in a pending takeover (from Idea Hive)...**

In this post, I'm back with a new portfolio idea: WideOpenWest (WOW). I believe WOW presents one of the more intriguing special situation plays currently available in the market. The company is in the process of being acquired by its largest equity holder. The current takeover proposal is evidently lowballed, leaving plenty of room for a price increase. The situation has been well-analyzed in public letters from several of WOW's equity holders, including LB Partners (here) and Andrew Walker (here and here), so I'd highly recommend reading them.

Without further ado, let's dive in.

**WideOpenWest (WOW)**

- Elevator pitch: Attractive bet on a higher offer in a pending takeover.
- Current price: $5.62
- Target price: $10+

WideOpenWest is a $465m market cap cable and fiber broadband provider operating across six states in the U.S. Midwest and Southeast regions. The company provides internet, TV, and phone services via its 1) legacy hybrid fiber-coaxial (HFC) and 2) fiber-to-the-home (FTTH) networks. WOW operates as a cable/fiber overbuilder, meaning it constructs and operates infrastructure in areas with incumbent cable providers.

The investment opportunity centers around WOW's major shareholder Crestview Partners' attempt to acquire the company. In May, WOW received a takeover bid at $4.80/share from a buyer consortium comprising Crestview (which holds a 39% stake) and the digital infrastructure investment firm DigitalBridge. In response, WOW has formed a special committee of independent directors to evaluate the bid.

The transaction is highly unlikely to proceed under the current terms. LB Partners, the largest minority shareholder with an 8% stake, and Andrew Walker have both opposed the offer, arguing that it is opportunistic and significantly undervalues the company. A materially higher bid from the buyer consortium will likely be required to appease WOW's special committee and/or equity holders. With WOW shares currently trading 17% above the offer level, the market seems to be expecting a price bump from the bidder consortium.



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There are several arguments for why the takeover proposal is lowballed and why there is significant headroom for a price increase above the current stock price:

- The current bid values WOW substantially below relevant industry transactions, including WOW's own asset divestitures, and peer valuations.
- The offer undervalues WOW on a replacement cost basis.
- The acquisition bid is opportunistic, coming as WOW is likely on the cusp of an operational performance inflection.

Let's discuss these in order.

Starting with the valuation compared to industry transactions, Crestview's bid values WOW at 5x TTM EBITDA. As illustrated in the chart below, this is at the low end of the industry transaction range of 5x-10x. It should be noted that these transactions primarily involved lower-quality copper/DSL assets compared to WOW's HFC/fiber cable infrastructure. A particularly interesting case is the pending acquisition of copper/fiber telecommunications provider CNSL by its major shareholder, Searchlight Capital, at a 70% premium, valuing the target at 9.6x TTM EBITDA. Why is this interesting? Several reasons:

- CNSL has been burdened by a significantly higher debt load (compared to WOW) amid ongoing capital expenditures for its fiber expansion program.
- CNSL has been operating a declining legacy copper business, in contrast to WOW's generally stable and cash-flow-generative HFC business.

So, despite the fact that WOW and CNSL are not direct comps, this precedent directionally illustrates WOW's undervaluation at the current offer price.





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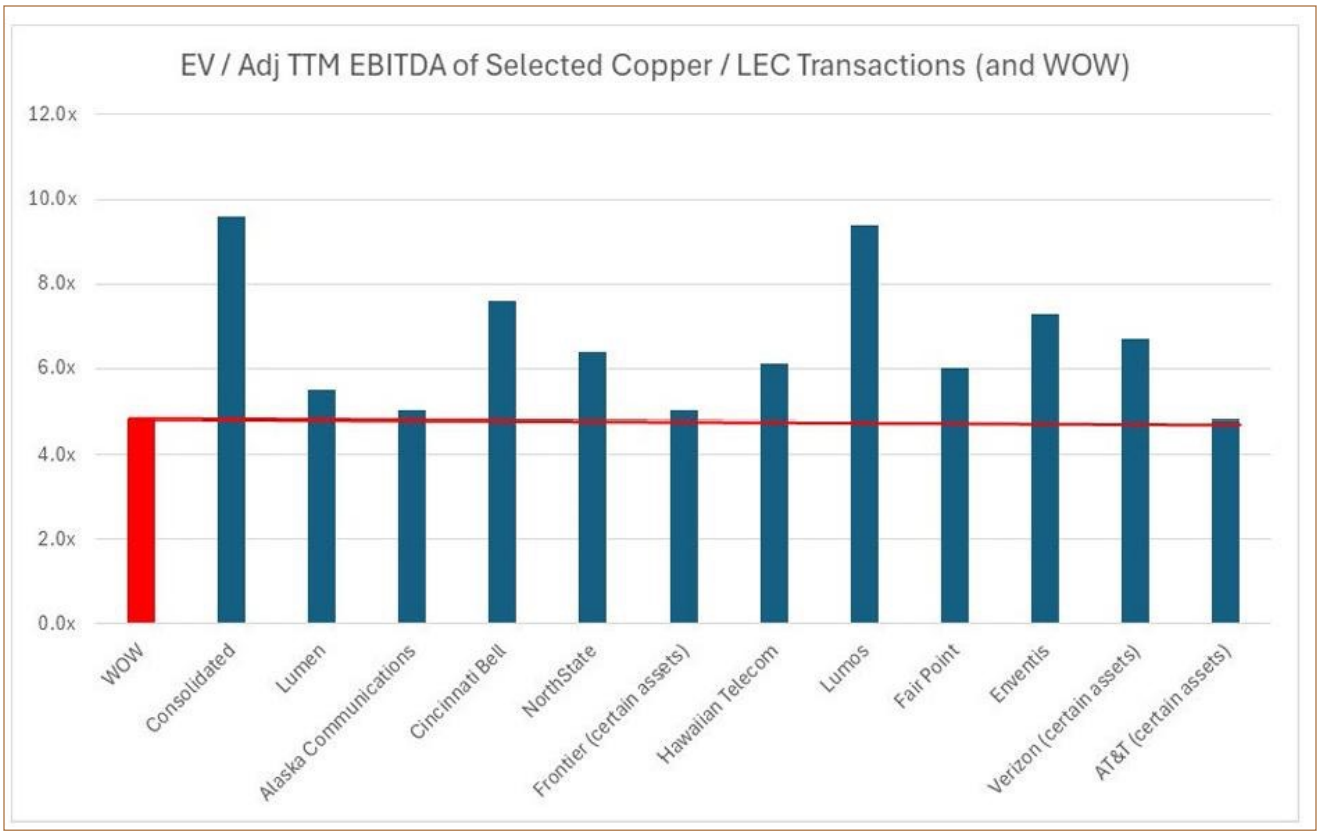


The offer's valuation is also significantly below the c. 11x EBITDA multiples at which WOW sold several of its fiber assets back in June 2021 and November 2021. Now, you might be thinking, "The industry backdrop/multiples have significantly deteriorated since 2021, so those divestiture multiples might now be irrelevant." And I'd agree—it is highly unlikely that WOW could fetch a similar multiple in the current environment. However, it is worth noting that at the time of the divestitures, WOW indicated that the sold assets were of lower quality compared to the remaining markets, given their significantly lower penetration rates. Considering this, I'd argue that the discrepancy between the valuations of the current offer and WOW's divestitures is too wide.

On the relative valuation front, WOW is currently trading below the 6-7x EV/EBITDA valuation range of its cable peers—CHTR, ATUS, CMCSA, and CABO (see the table below). WOW admittedly deserves a slight discount to its peers, given that it is a cable/fiber overbuilder. This means WOW must offer lower prices and/or higher speeds compared to competitors to convince customers to switch, generally leading to lower penetration rates. Nonetheless, I



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think that the current valuation discount to peers is too wide. As pointed out by LB Partners, at the time of WOW's asset divestitures in June 2021, CHTR was trading at 11.3x EBITDA, a much smaller 0.3x premium to where the divestitures were completed. So, peer valuations support the view that at the current and offered prices, WOW is undervalued.

| | WOW | CHTR | ATUS | CMCSA | CABO |
|---|---|---|---|---|---|
| Market cap ($m) | 476 | 49778 | 847 | 154203 | 1968 |
| Enterprise value ($m) | 1474 | 145868 | 25696 | 246266 | 5306 |
| **EV/TTM EBITDA** | **5.3** | **6.6** | **7.3** | **6.6** | **6.0** |
| Penetration rate (last reported) | 26% | 48% | 48% | 51% | 38% |
| Net-debt-to-EBITDA | 3.6 | 4.3 | 7.0 | 2.5 | 3.8 |
| TTM EBITDA margins | 42% | 41% | 39% | 31% | 54% |

The offer's undervaluation is also evident when considering WOW's asset value. Crestview's bid values WOW at $680 per passing (both HFC and FTTH). This is substantially below comparable transaction 'EV/home passed' valuations (e.g., CNSL was acquired at around $2,500/passing) and is close to the low end of WOW's own network build-out costs. WOW's management has highlighted that the company has been spending c. $1,050/passing in its greenfield investments (both HFC and fiber), while the cost of edge-outs has ranged from $650 to $750 per passing. For quick background, greenfield investments refer to building new infrastructure from scratch, while edge-outs refer to expanding an existing network into adjacent areas. It's important to note that these edge-out and greenfield cost estimates provided by WOW's management do not include the full costs of connecting the end customer's home to the network. So, I think it is fair to conclude that the current offer values WOW below its replacement cost.

But that's not all—I have yet to discuss another intriguing aspect of Crestview's offer: its opportunistic timing. The bid came just days before Q1 2024 earnings, which I'd consider a potential inflection point for the business. To understand this, let's briefly review several headwinds the company has faced in recent quarters/years:

- Last year, the company's operational performance in its core business suffered due to poorly managed price increases. This, coupled with intensifying competition from fixed wireless operators, led to a significant decline in subscribers. In Q3 2023, WOW announced





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a significant decline in its total broadband customer base (approximately 4,000 vs. about 500,000 total subscribers), with management guiding for "triple" Q3 losses in Q4. This spooked the market, causing the share price to nearly halve following the Q3 earnings announcement. The stock has barely recovered since then up until the recent takeover bid.

- In recent years, WOW has made significant capital investments in its fiber build-out (c. $180m or >$2/share spent since the program's start in 2022). This expansion program temporarily elevated net debt levels and led to negative cash flows, as it typically takes several years for fiber assets to mature.

However, it seems that these headwinds are now likely behind the company and so WOW might be on the brink of an inflection.

**Continue reading here**



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# PRECIOUS METALS

**New report suggests wealthy investors are helping to drive gold prices higher (from *The Financial Times*)...**

Wealthy families and individuals worried about US government debt levels were the probable drivers of a record second quarter in demand for gold, according to an industry report, pushing the price to all-time highs this year.

Opaque private purchases of the haven asset surged to 329 tonnes in the three months to June, almost five times higher than the previous quarter, according to a report by the World Gold Council, an industry promotion group.

This helped lift demand for gold to 1,258 tonnes in the quarter, its highest level in the April to June period since records began in 2000 and a 4 per cent rise on a year earlier.

The gold price hit a record high of $2,483.60 per troy ounce earlier this month, driven by growing expectations of interest rate cuts — which would benefit non-yielding assets such as bullion by dimming the returns on bonds — and uncertainty over the outcome of the US presidential election. The metal is trading at around $2,380 per troy ounce.

John Reade, chief market strategist at the WGC, said anecdotal evidence suggested wealthy US family offices were one of the main groups scooping up bullion because of concerns about uncontrolled fiscal deficits.

**Continue reading here** *(subscription may be required)*





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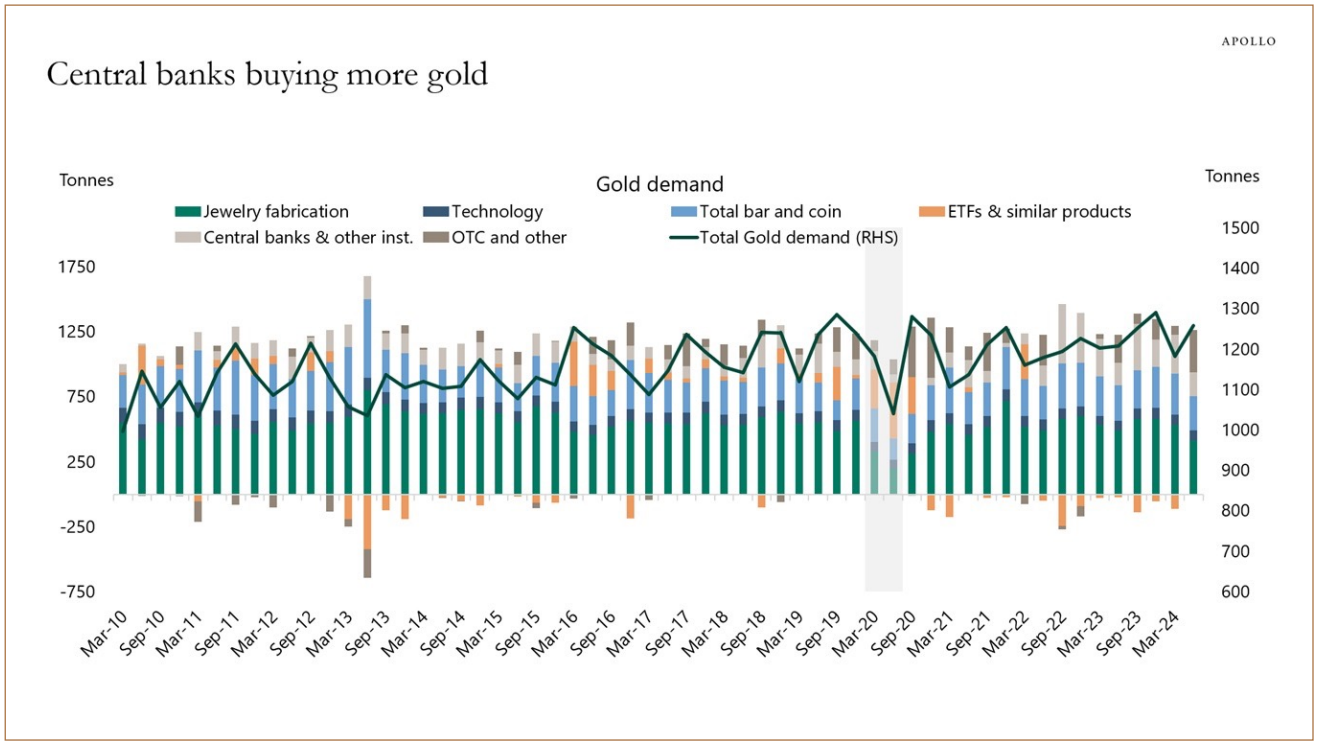
**Central bank gold demand remains strong (from Torsten Sløk in The Daily Spark)...**



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**Junior gold miners have officially broken out of a multi-year downtrend (from Otavio (Tavi) Costa via X)...**

Ladies and gentlemen,

This is it.

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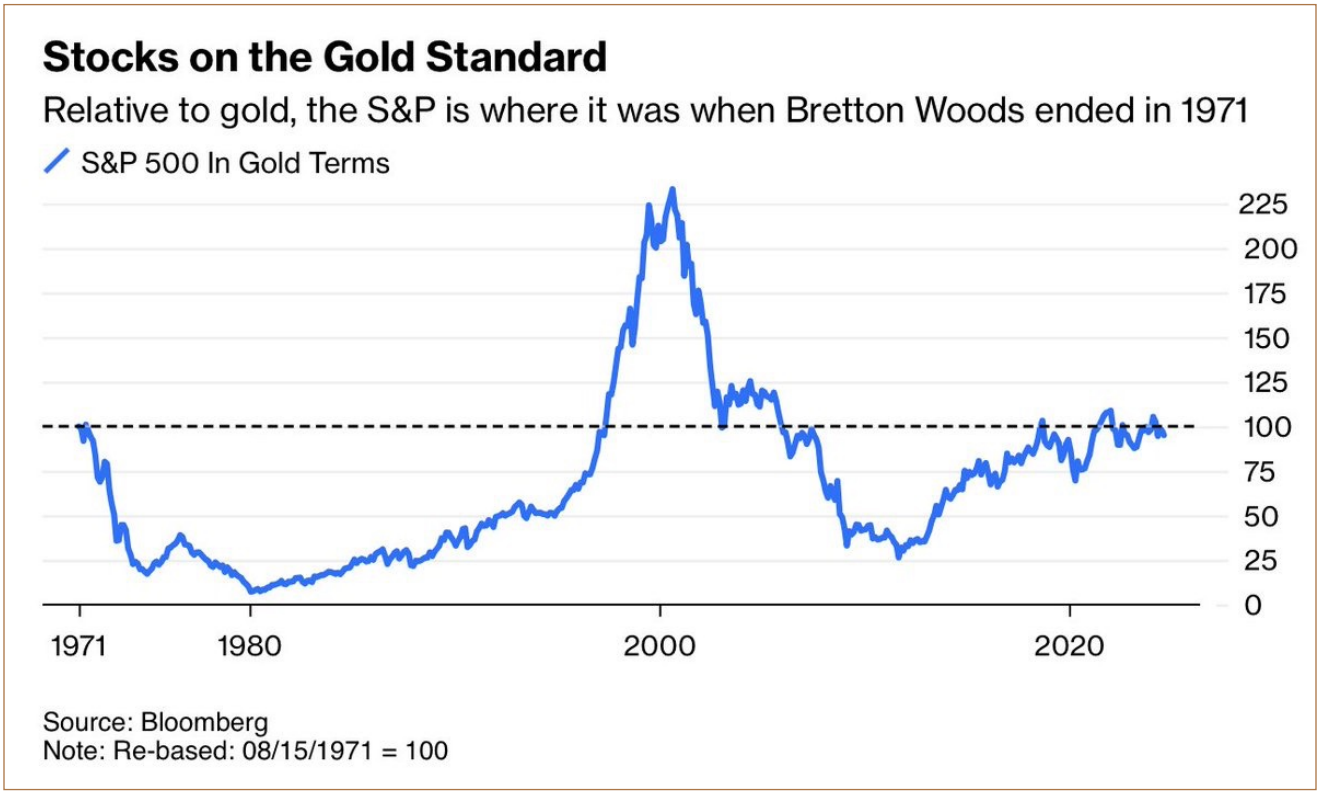
**In gold terms, the S&P 500 is exactly where it was in August 1971 (from Jesse Felder/ Bloomberg via X)...**

The significance of that date is that it was the moment when President Richard Nixon severed the dollar's link to gold.



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**Silver could be starting a big "catch-up move" versus gold (from Graddhy - Commodities TA+Cycles via X)...**

Very big picture there is a massive divergence between $GOLD & $SILVER. Last time the two had a larger divergence like this, silver played catch-up big time. And this time, silver will break out of a 45-year cup and handle. So the over-shoot this time should be absolutely mega.

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# ENERGY

**Chevron plans to move its headquarters from California to Texas due to "excessive regulation" (from Libs of TikTok via X)...**

FINANCIAL TIMES

Chevron plans to move its headquarters from California to Texas, becoming the latest major company to leave the west coast state after complaining of excessive regulation.

The second-biggest US oil company said on Friday that it would leave the state where it has been a fixture for almost 150 years following clashes with authorities over penalties and climate policies it has said render California "closed for business".



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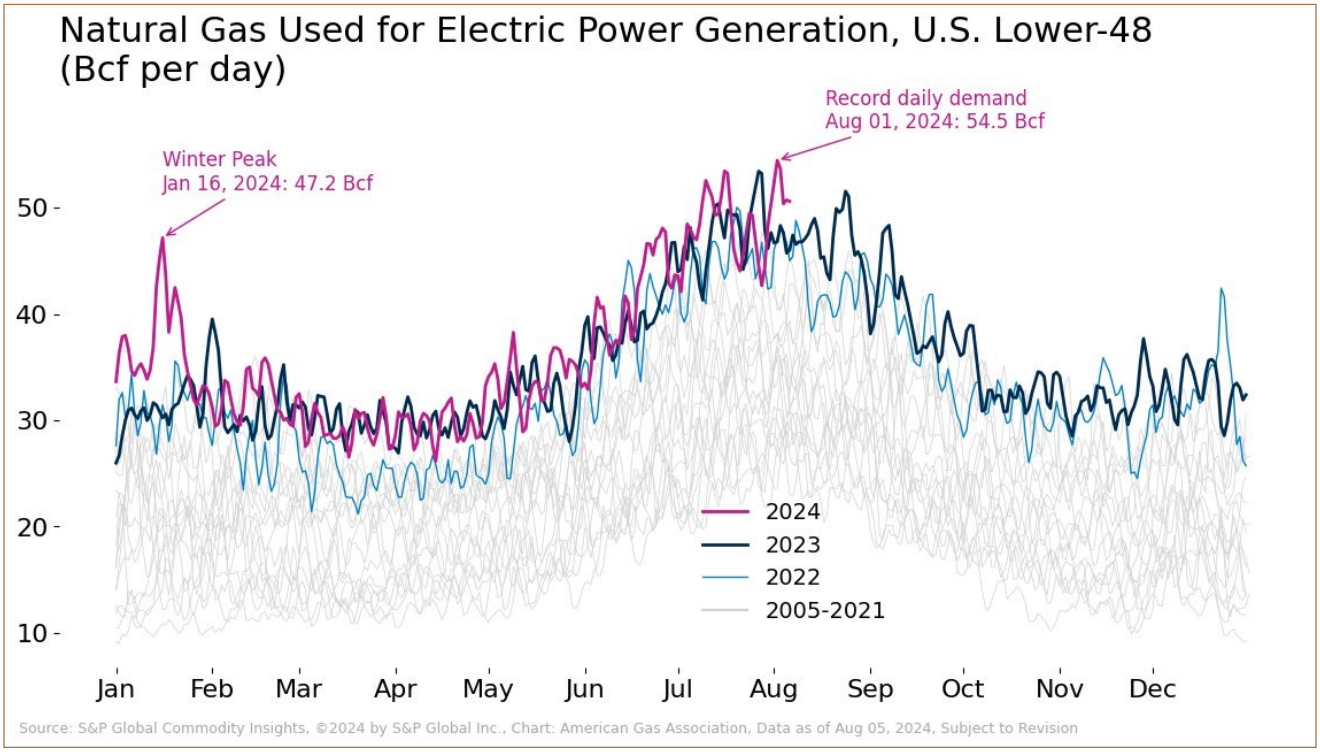
**More natural gas was used for U.S. electric power generation on August 1 than at any time in history (from Richard Meyer via X)...**

This caps a record month in July 2024 for natural gas demand for electric power and the amount of electricity generated using natural gas.





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**U.S. crude oil production hit an all-time record this month (from The Kobeissi Letter via X)...**

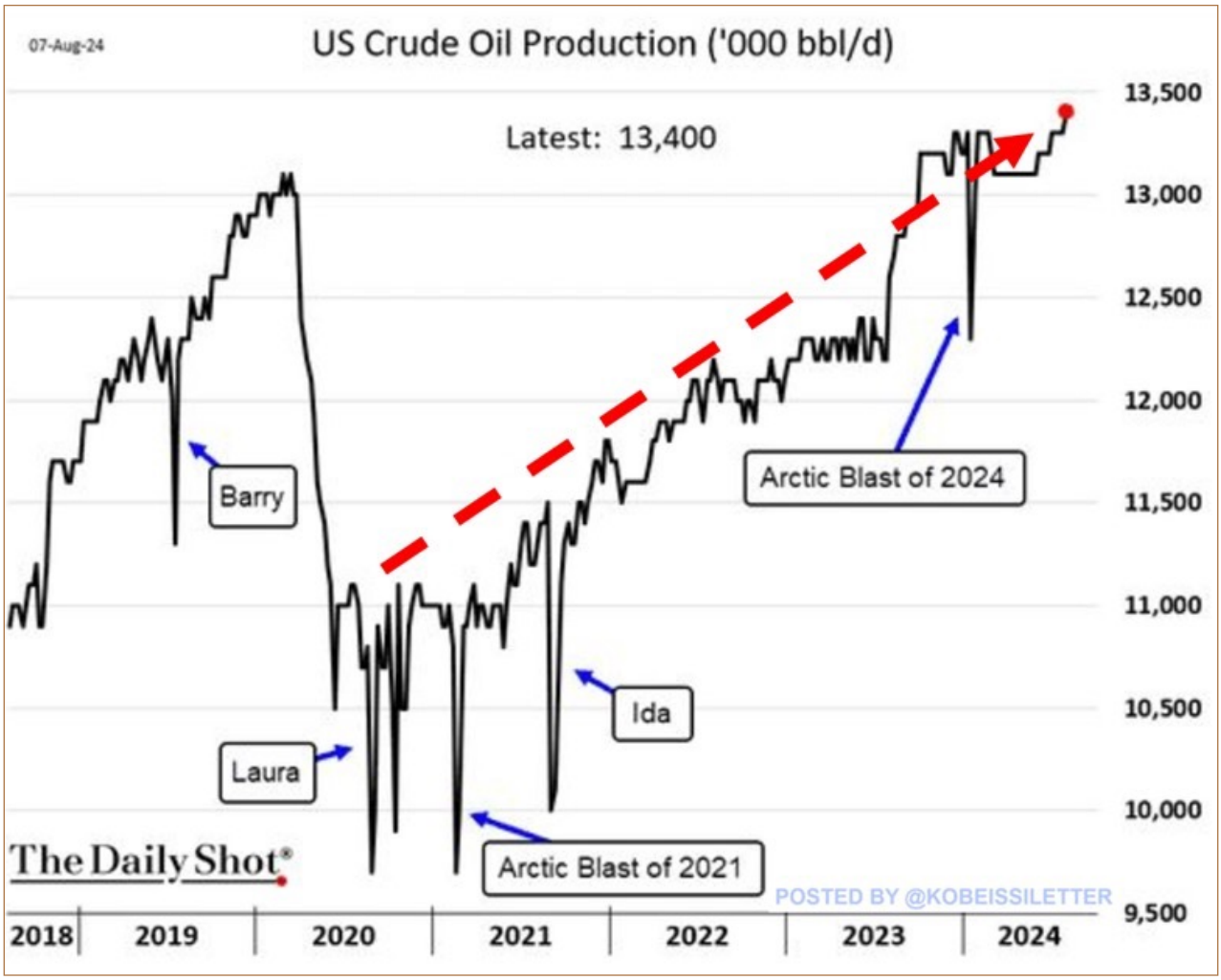
US crude oil production has officially hit a record 13.4 million barrels per day.

Daily oil production has increased by 22% over the last 4 years.

Since 2008, production has skyrocketed 350% from ~3.8 million barrels per day.

The US is now the world's largest oil producer exceeding  Russia's output by ~35% and Saudi Arabia by ~38%.

The US is dominating global oil production.



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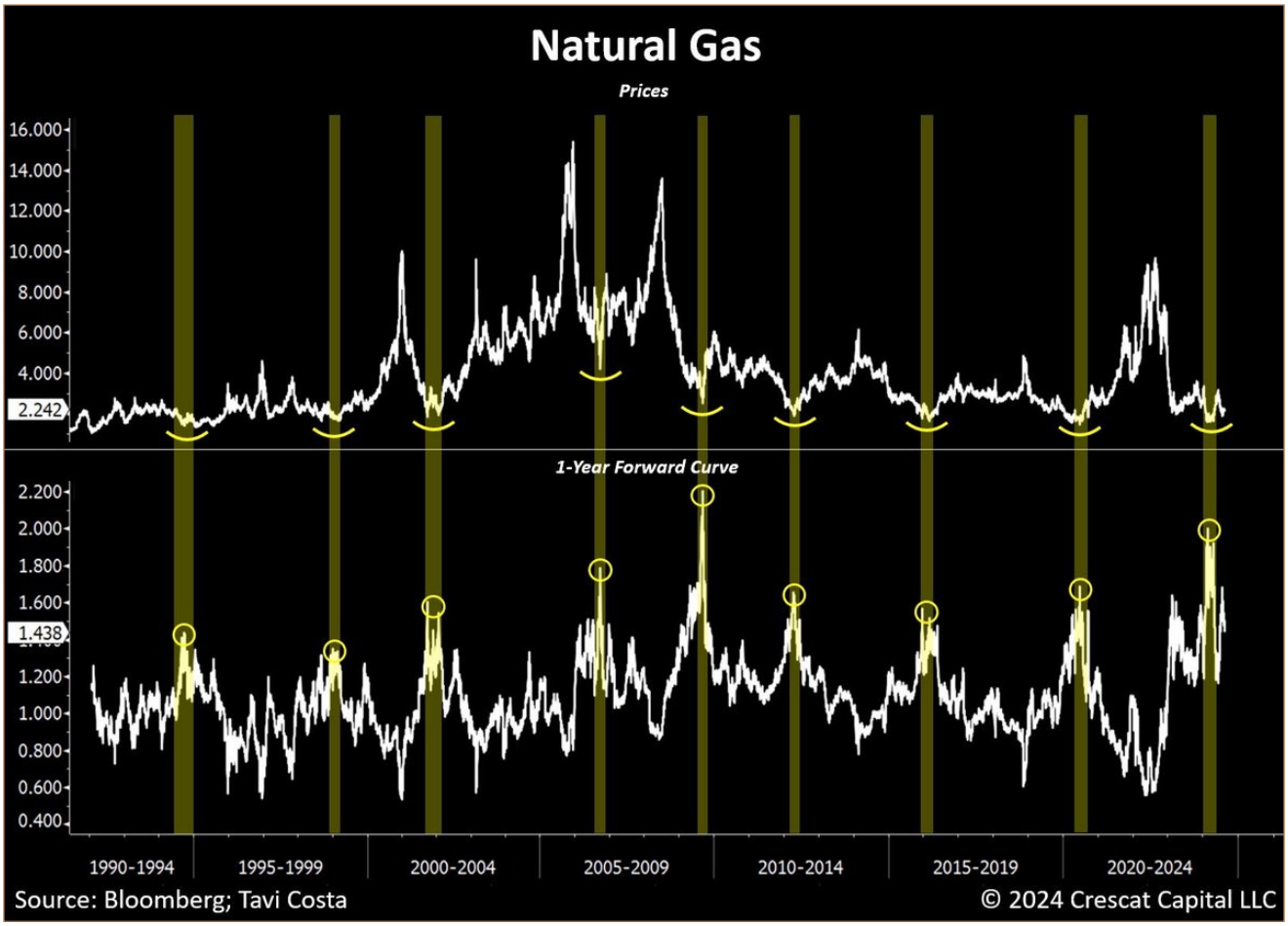
**Steep contangos have often marked major bottoms in natural gas (from Otavio (Tavi) Costa via X)...**

Here we are again.





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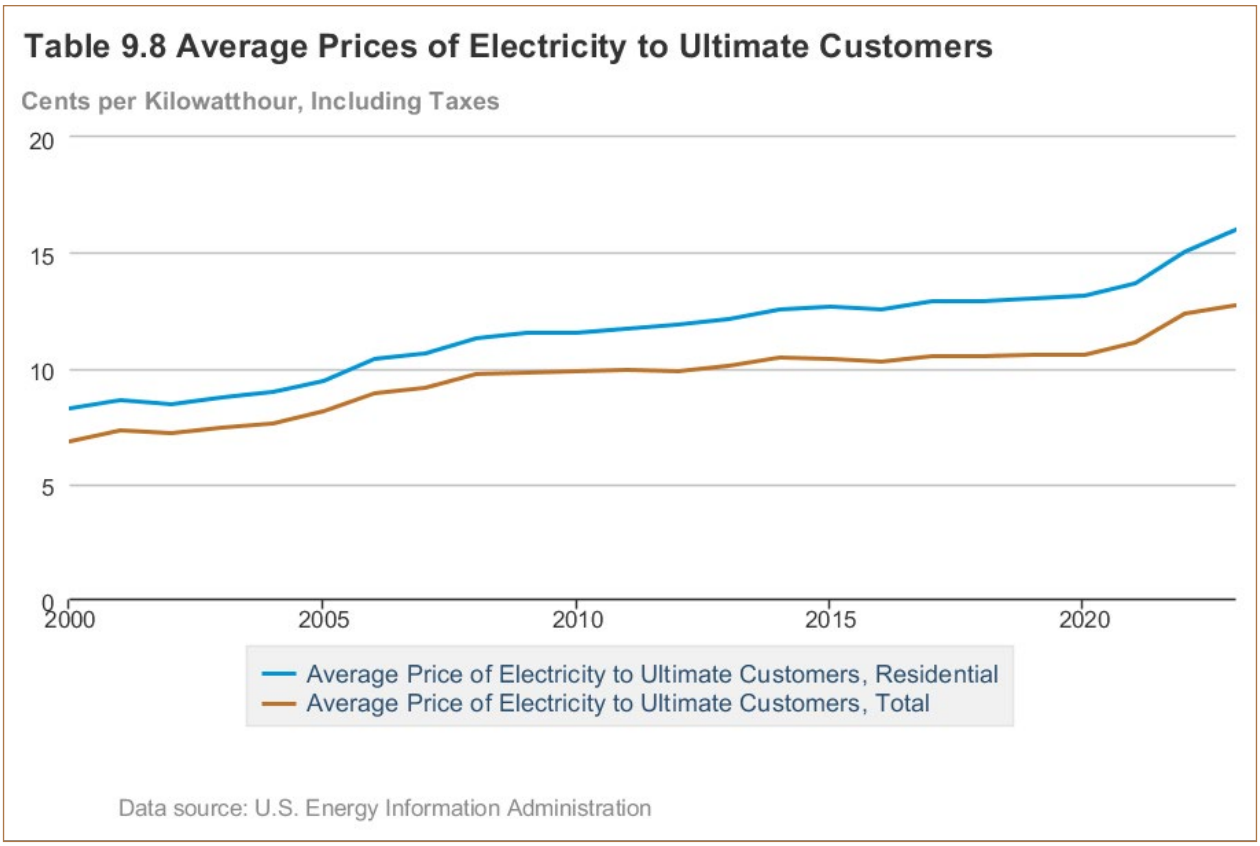
**Your high electricity bills are the result of government-dictated green energy schemes (from Energy Talking Points by Alex Epstein)...**

- Electricity rates have risen 47% faster than the CPI the last 12 months, and nearly 24% overall since the Biden-Harris administration began.




- As Americans struggle with rising summer electricity bills, it's important to know that this struggle was 100% unnecessary and 100% preventable.
- High electricity bills are the result of government-dictated schemes—such as the recent IRA—to build massive, wasteful, unreliable solar and wind infrastructure.
- As bad as higher electricity prices seem, they are actually far worse, **since we are also paying huge IRA subsidies through taxes and inflation that don't appear on our utility bills**.
- Because solar and wind can go near zero at any given time, they don't replace reliable power plants—they add to the cost of reliable power plants. That's why electricity prices



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have gone up even as the cost of natural gas, our leading source of electricity, has gone way down.

- The solution to high electricity bills is to end all preferences for unreliable electricity.





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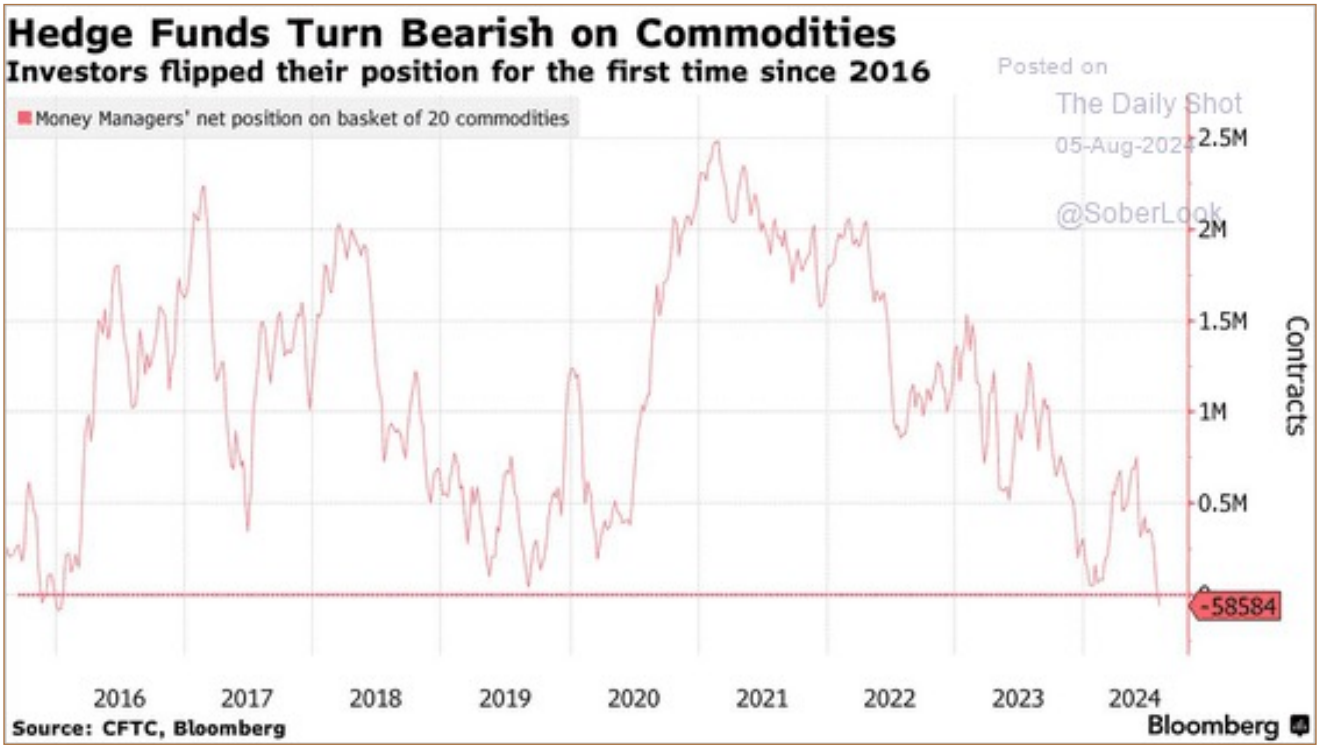
# OTHER COMMODITIES

**Hedge funds have turned quite bearish on commodities (from Ronnie Stoeferle via X)...**



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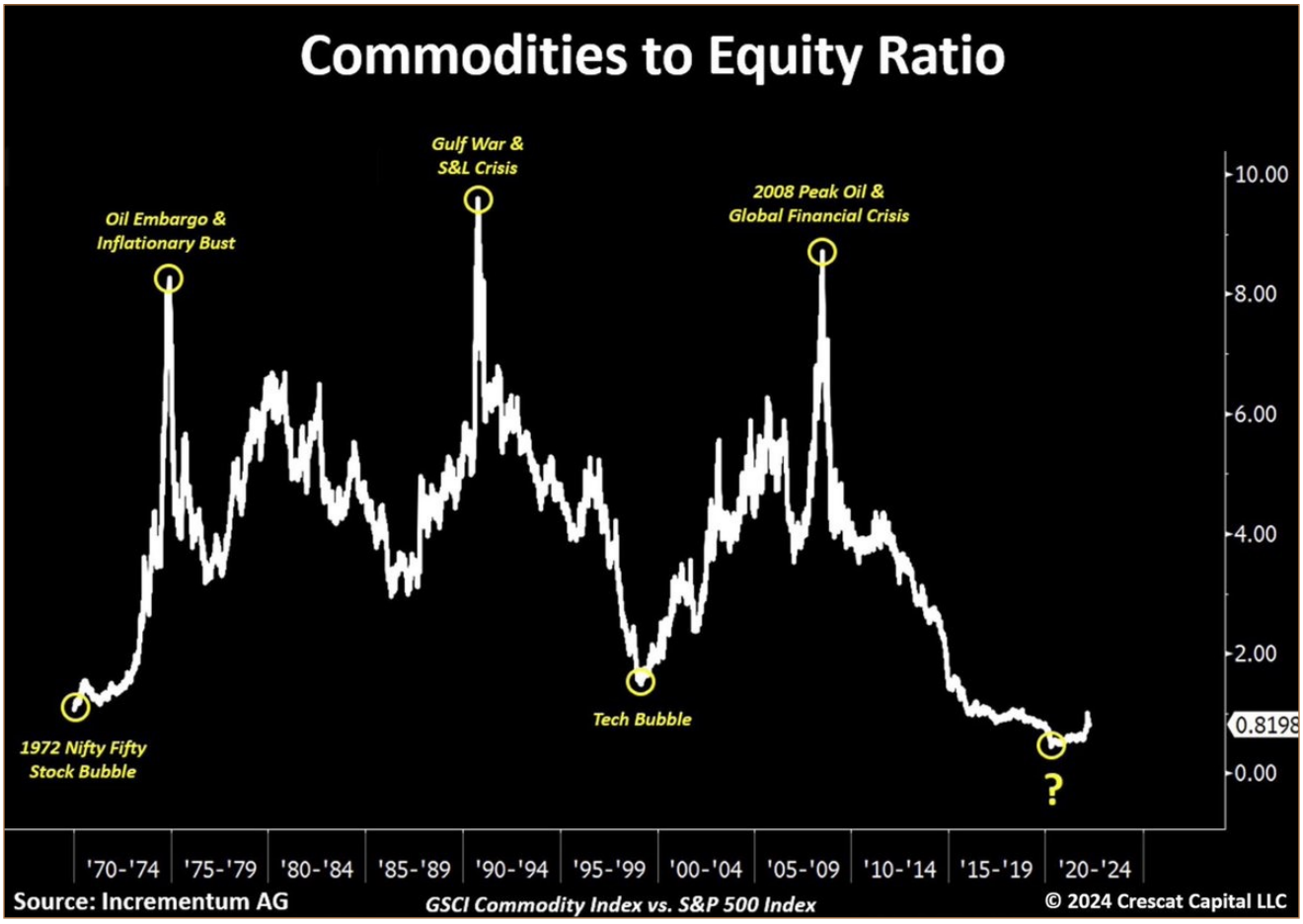
**A reminder that commodities remain historically undervalued relative to stocks (from Otavio (Tavi) Costa via X)...**

The remarkable resilience in commodities on a day marked by complete liquidation of risky assets highlights how early we are likely in the cycle for hard assets.





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**Veteran commodities analyst: A new "supercycle" is underway (from *Barron's*)...**

Jeff Currie has been charting the path of commodities for decades, scouring the globe for clues to where oil, coal, copper, and gold prices might be headed next. Currie spent 27 years at Goldman Sachs, eventually becoming the head of global commodities research. His correct predictions about China's rise in the early 2000s and the U.S. shale boom in the 2010s have shaped the investment conversation around commodities for years.

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This year, Currie was named the chief strategy officer for energy pathways at Carlyle, analyzing commodity markets and investment ideas for the private-equity firm's infrastructure and energy teams.

Currie recently spoke with Barron's about the markets' latest moves, and why he's more convinced than ever that commodities have entered a new "supercycle" that will lift copper, gold, and oil prices.

An edited version of the conversation follows.

***Barron's*: The stock market and the commodities market have had a wild ride lately, almost suggesting that something fundamental has shifted. What is your read on the situation?**

Jeff Currie: The most significant development is that we have likely seen a turn in the U.S. interest-rate cycle for the first time since 2019.

**It looks like the Federal Reserve will cut interest rates in September. What kinds of commodities assets should benefit most?**

The most interest-rate-sensitive sectors, which include green energy and copper.

**Green energy? Those stocks have been poor performers for the past two years. Is it time to give them another look?**

Absolutely. Clean energy is one of the most rate-sensitive sectors in the global economy. The peak in clean energy occurred when rates were at 0%. Since rates have moved up, the



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pendulum has swung back toward traditional energy. If you think the Fed is going to start cutting rates, it will swing back toward clean energy again, so you'd want to be a buyer of clean energy here. The clean energy sector looks attractive today.

**What kinds of opportunities should investors consider?**

The difference in investing in this cycle versus previous cycles is that the focus needs to be on a larger ecosystem, including things like batteries and combined-cycle natural-gas turbines, to be able to create a reliable energy system. I call it a reliability premium. Basically, you want storage in your system, like batteries, so the system becomes more functionally like fossil fuels.

**Where does copper fit in? Copper and green energy are connected because so much copper is used in batteries and electric vehicles.**

Copper is involved in all the key investment themes facing the world today. It embodies the demand around green spending, data centers, and deglobalization.

**Let's step back. You have been bullish on commodities for a few years. You even talked about the idea of a commodities "supercycle" that could lift metals such as copper—and oil, too. What does a supercycle mean in this context?**

It's a capital expenditure cycle. We call it the revenge of the old economy.

**Meaning metals and energy? And that spending on "old economy" commodities starts to rise?**

Yes. It has happened before. It happened in the 1960s. After World War II, there was a global capex boom. We built up everything. By the late 1950s and early '60s, we were swimming in overcapacity. Inflation went down to very low levels, interest rates were cut, and the equity market ripped. The hot investing theme in the 1960s was the Nifty 50—consumer brands such as Coca-Cola and Gillette.

Then what happened? It was the revenge of the old economy. The country hadn't kept investing in all the nonfinancial physical stuff. Exxon was a terrible stock during that time period. A demand shock occurred with President Lyndon Johnson's Great Society initiative, and old-economy companies and stocks were off to the races. There is a close analogy to today. The Organization of the Petroleum Exporting Countries took advantage of that situation, just as Russia has taken advantage today.

**Continue reading here** *(subscription may be required)*





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# BITCOIN AND CRYPTO

**Michigan joins Wisconsin's pension fund with Bitcoin investment; New Jersey could be next (from Morningstar)...**

When the Securities and Exchange Commission approved bitcoin exchange-traded funds, one of the questions after the approval was whether institutional investors would now be more comfortable investing in the cryptocurrency using those vehicles.

It seems they have: The State of Michigan Retirement Fund has disclosed holding about $7 million worth of ARK 21Shares Bitcoin ETF ARKB in its latest 13-F filing to the Securities and Exchange Commission.

It joins its neighboring swing-state retirement fund in investing in the cryptocurrency. The State of Wisconsin Investment Board previously has shown up in the top shareholder lists for the iShares Bitcoin Trust IBIT and the Grayscale Bitcoin Trust GBTC.

The Jersey City pension fund is looking to invest as well, its mayor said in a social-media post, with an allocation similar to Wisconsin's of 2%.

Jeroen Blokland, manager of the Blokland Smart Multi-Asset Fund, said the state fund investments are significant and break a taboo.

"Pension fund boards often fear reputational risk, leading to a prolonged status quo. Not exactly a climate in which you would easily invest in bitcoin," said Blokland.

"In addition, if investors and boards also start to connect the dots regarding bonds (abundant, low returns, more risk, and less diversification), the hunt for truly scarce assets can quickly escalate," he added.



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**BlackRock exec: Crypto exchange-traded funds ("ETFs") are coming to model portfolios soon (from ETF.com)...**

Bitcoin and Ethereum exchange traded funds will be part of model portfolios in the near future, BlackRock's Chief Investment Officer of ETFs and index investments told Bloomberg Television on Monday, a development fueled by major broker dealers' growing comfort with the products.

The interest of the broker dealers, who manage trillions in assets, will serve as a catalyst for investors to include these funds among their holdings, Samara Cohen said.

"That is exactly what I think will be the story of this year and next year," Cohen said. "They are doing their jobs, and their job is risk analytics, due diligence.

Morgan Stanley, Wells Fargo, UBS and other large asset managers have approached crypto investments cautiously. Morgan Stanley and Wells Fargo have purchased shares in spot bitcoin ETFs this year, according to reports, and the former said it would reevaluate its policies to allow its financial advisors to recommend bitcoin ETFs to its clients. UBS is among authorized participants in the BlackRock Bitcoin Trust (IBIT), meaning that it oversees the creation and redemption of shares.

Cohen said that these firms would be "looking at their role in the portfolio, and particularly, their utility as portfolio diversifiers."

"What will happen towards the end of this year, and into next year, is we will see allocations made into model portfolios, which would give us much more of a steer as to how investors are using them," she said.

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**Morgan Stanley becomes the first major wealth manager to offer Bitcoin ETFs to wealthy clients (from CNBC)...**

Morgan Stanley on Friday told its army of financial advisors that it will soon allow them to offer bitcoin ETFs to some clients, a first among major Wall Street banks, CNBC has learned.

The firm's 15,000 or so financial advisors can solicit eligible clients to purchase shares of two exchange-traded bitcoin funds starting Wednesday, according to people with knowledge of the policy.

Those funds are BlackRock's iShares Bitcoin Trust and Fidelity's Wise Origin Bitcoin Fund, the people said.

The move from Morgan Stanley, one of the world's largest wealth management firms, is the latest sign of the adoption of bitcoin by mainstream finance. In January, the U.S. Securities and Exchange Commission approved applications for 11 spot bitcoin ETFs, heralding the arrival of an investment vehicle for bitcoin that is easier to access, cheaper to own and more readily traded.

Bitcoin has weathered market sell-offs, the spectacular collapse of crypto exchange FTX and criticism from the most established figures in finance including JPMorgan Chase CEO Jamie Dimon and Berkshire Hathaway CEO Warren Buffett.

So it's not surprising that Wall Street's major wealth management businesses didn't immediately embrace the new ETFs, forbidding their financial advisors from pitching them and only allowing trades if clients actively sought out the product.

Goldman Sachs, JPMorgan, Bank of America, and Wells Fargo still follow that policy, according to spokespeople at the four banks.

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**Bitcoin has the same bullish pattern as silver (from Graddy - Commodities TA+Cycles via X)...**

It also has a massive bullish reversal candle, at the exact place where we wanted to see one.

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**Why Bitcoin's recent "death cross" isn't necessarily a bearish omen (from Timothy Peterson via X)...**

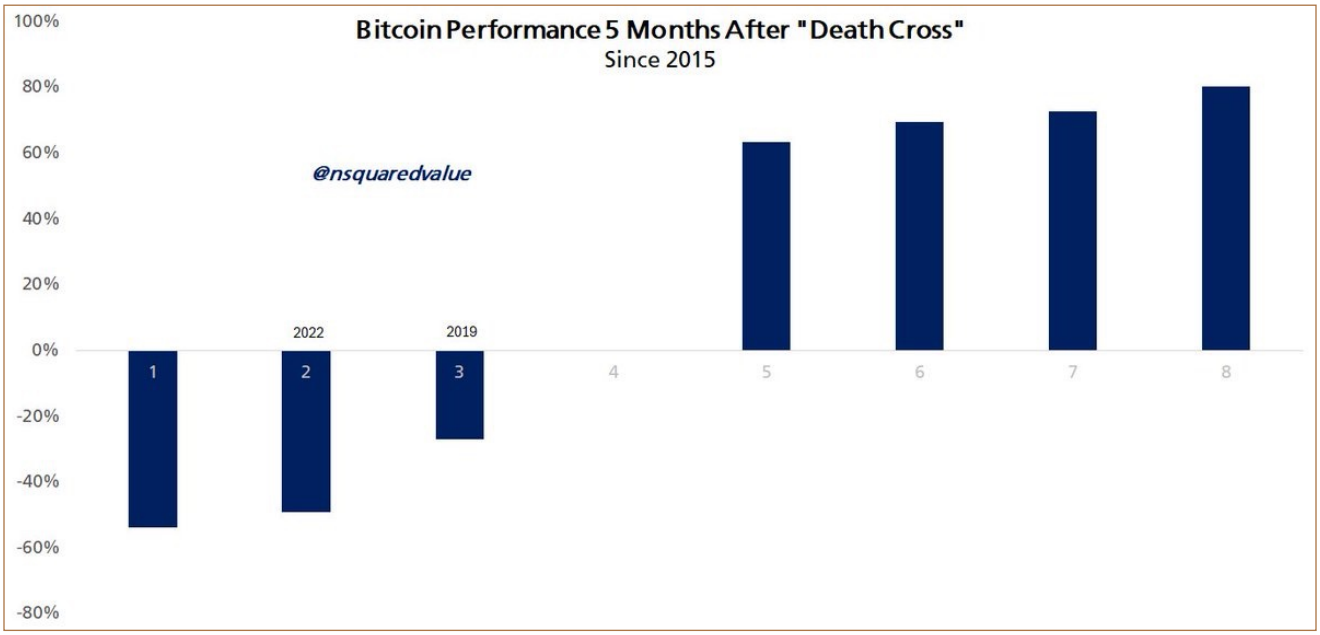
Bitcoin bull market bear trap?

Bitcoin hit a 'death cross' where the 50-day average crosses below the 200-day average.

This has happened only 8 times since 2015.

What happens next?

Bitcoin was up 62% of the time. The down instances were during bear market years 2014, 2022, and 2019. A repeat would put Bitcoin below $40k at the end of this year, something I think is unrealistic. So we should look at the 4 up results of 60%+. A repeat of these scenarios would put Bitcoin at $90,000+ by year-end.



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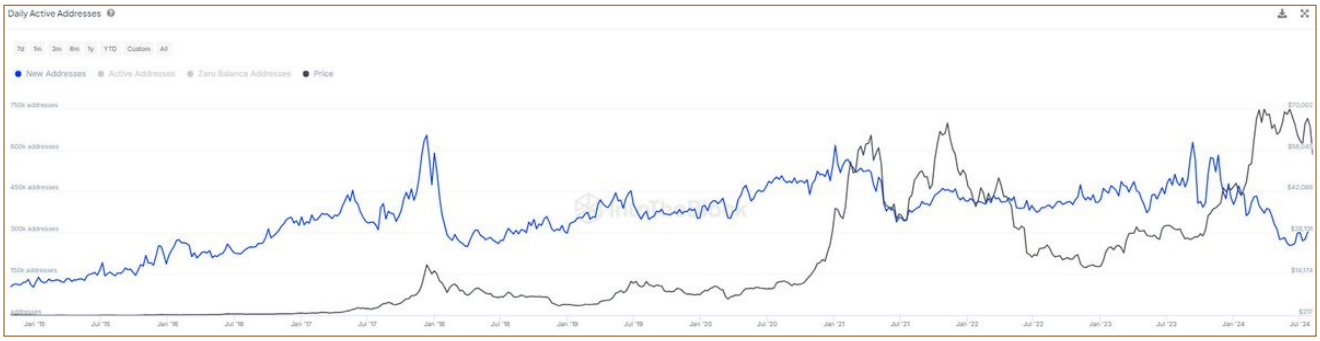
**Bitcoin's new addresses show renewed retail interest (from IntoTheBlock via X)...**

Since November 2023, The number of daily new addresses has trended downward, a bearish signal indicating fewer new participants, particularly on the retail side.

However, the trend seems to be shifting, with the number of new addresses trending upward in more recent weeks.

This shift suggests renewed interest from retail investors, potentially leading to a more balanced market and a stronger foundation for the next growth phase





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**Why the Democrats' "Crypto for Harris" campaign is an obvious scam (from Balaji via X)...**

In VC it's not real until money is wired. And in DC it's not real until Gensler is fired. That's why Crypto for Harris is a scam: they want crypto's votes without spending any political capital.

If the policy shift was real they would immediately:

1. Fire Gary Gensler
2. Free Roman Storm, an innocent developer
3. Repudiate the unrealized cap gains tax
4. Stop the SEC show trials

And that's just the start.

Obviously the Party can do this instantly. After all, they just got a sitting president to stand down by threatening the 25th Amendment, pulling his donor support, and smashing him in the press relentlessly. So, Gensler would fall through a trap door in a second if the right people pushed the right buttons.

What the Party is trying, however, is to see whether crypto voters are idiots. If the Dems can get by with words rather than actions, if they can pretend their hands are tied till after the election, they can get crypto votes without having to spend any political capital in return.

So, Crypto for Harris is just another Dem Scam. Great deal for them. Terrible deal for you. Make them spend the political capital now. Otherwise you are falling for a scam that says "hey, send me 1 BTC today and I'll send you 2 policies tomorrow."

Yeah. No.

Demand actions, not words. First, make Kamala publicly fire every Gensler and Warren hire now. It will never happen, but at least you'll know they're lying.

Then, make Dems lose elections. Because the only way you'll see pro-crypto people rise within the Democrat Party is if Warren pays a political price for building the anti-crypto army.



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**This month, the Fed confirmed that Operation Choke Point 2.0 remains in full swing, and provided valuable insight into how it works (from Tyler Winklevoss via X)...**

The Fed revealed all of this in a 13-page enforcement action it issued...against crypto-friendly bank @CustomersBank.

# Federal Reserve Hits Customers Bancorp With Enforcement Action

- Fed alleges deficiencies in anti-money laundering compliance
- Piper warns of hit to crypto-business profit; shares sink

The punchline of this enforcement action is that Customers Bank must now give the Fed 30 days of advance notice prior to entering into any new banking relationship with a crypto company.

Of course, the only way you can understand this is by connecting the 3rd paragraph on page 1 of the order with that last paragraph on page 9.



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**Page 1**

WHEREAS, Customers Bancorp, Inc., West Reading, Pennsylvania ("Bancorp"), a bank holding company, owns and controls Customers Bank, Malvern, Pennsylvania (the "Bank," and collectively with Bancorp, the "Organization"), a state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the Board of Governors of the Federal Reserve System (the "Board of Governors") is the appropriate federal supervisor of Bancorp and the Bank;

WHEREAS, Bancorp has pursued a business strategy that involves offering banking services to digital asset customers ("digital asset strategy"), and also operates an instant payments platform that allows commercial clients to make tokenized payments over a distributed ledger technology system to other commercial clients of the Bank ("dollar token activities");

WHEREAS, the most recent examinations and inspection of the Organization conducted





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**Page 9**

**Notification of New Activities**

9. Effective immediately, the Organization shall provide the Reserve Bank with written notice thirty days prior to engaging in:

(a) any new strategic initiative, product, service, or relationship with third parties related to the digital asset strategy;

Given that Customers Bank is one of the only few crypto-friendly banks remaining in America today, this means that the Fed is now a direct gatekeeper standing between crypto companies and their ability to get a new bank account. This is not how principles-based regulation is supposed to work. The decision whether to bank a company should be decentralized across the entire banking industry and made by each bank at its own discretion. Now, this decision has been centralized by the Fed and will be made by the Fed at its sole discretion. The Choke Point has been created.

What exactly did Customers Bank do to earn this regulatory straitjacket and be forced to abdicate its own business judgment and decision-making to the Fed with respect to banking crypto companies? That part is entirely unclear. The non-allegation allegations are so hand-wavy and vague, they would make Franz Kafka blush.

All we know from the 13-page order is that during the most recent examination and inspection, the Fed "identified significant deficiencies." Not a single fact or tangible finding, however, is provided to back up this claim. The public must take the Fed's words for it. Trust us they say. How convenient.

You can read the whole order here:
**https://federalreserve.gov/newsevents/pressreleases/files/enf20240808a1.pdf**

The punishment (for now) for these "significant deficiencies" is that Customers Bank must rewrite many of their policies within the next 60 days. Something the Fed could have simply asked them to do sans enforcement action lol. But that's missing the point. These "deficiencies" and their remedies are pretextual. The Fed's real concern and purpose for this



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exercise is to build a public case, however ambiguous, that gives it the excuse, air cover, and rationale it needs for its ultimate goal, which is control. The unlawful control of what companies and industries a bank can bank, and what companies and industries it cannot.

Apologists will say that Customers Bank can still bank crypto companies, they just now need the Fed's explicit approval to do so. Maybe so, but what are the statistics on how many crypto companies are getting approved and how many aren't? Is the Fed willing to publish these numbers? I'd sure like to see them. And what will those approval numbers look like if Kamala Harris wins in November and Elizabeth Warren is still a sitting Senator. My wager is next to zero if not zero.

And make no mistake, this enforcement action is the Fed playing nice with nerf guns. It's just the table setting. Not even the appetizer. The Fed is on its best behavior at the moment because the election is around the corner. If Harris wins in November, the gloves will come off.

Hope is not a strategy. It's time to demand real change now. Onward!





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**Goldman Sachs and Morgan Stanley took stakes in U.S. spot Bitcoin ETFs in Q2, filings show (from Reuters)...**

Goldman Sachs and Morgan Stanley purchased a total of more than $600 million in spot bitcoin exchange-traded funds (ETFs) during the second quarter, regulatory filings showed on Wednesday.

The two banks joined a group of hedge funds and financial advisers that have waded into the products, which began trading in January 2024.

Goldman Sachs said in its quarterly disclosure to the Securities and Exchange Commission, known as a 13-F filing, that it had acquired about $418 million in several of the recently launched ETFs tied to the price of spot bitcoin.

Most of that sum reflected a stake of nearly 7 million shares in the iShares Bitcoin Trust, valued at about $238 million as of the end of the quarter, June 30. Goldman also took sizeable stakes in the Fidelity Wise Origin Bitcoin ETF and the Invesco Galaxy Bitcoin ETF, and smaller positions in several other bitcoin ETFs launched in January.

Morgan Stanley also favored BlackRock's iShares bitcoin ETF, disclosing a 5.5 million share stake that was valued at $188 million as of June 30. The bank also disclosed smaller holdings in the Ark 21Shares Bitcoin ETF and Grayscale Bitcoin Trust.

The 13F filings are one of the few ways to get a snapshot of how institutional investors are positioned at the end of every quarter. The positions may not reveal current holdings.

**Continue reading here**



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**The Democratic Party excluded Bitcoin and crypto from its 2024 platform, aligning with past hostility (from Bitcoin Magazine)...**

The Democratic Party's official 2024 platform was released today on day one of the Democratic National Convention (DNC), without any mention of Bitcoin or cryptocurrency. This decision aligns with the past four years of the Biden-Harris administration's hostility towards the industry.

Despite the growing significance of Bitcoin and digital assets, neither Kamala Harris or Tim Walz, who are running for president and vice president in the upcoming election this November, has prioritized the inclusion of Bitcoin and crypto in the party's agenda.

In contrast, the Republican Party has embraced Bitcoin, making it a central part of their platform. They have pledged to end what they describe as the Democrats' "unlawful and unAmerican crypto crackdown" and oppose the creation of a Central Bank Digital Currency (CBDC). Additionally, the GOP vows to protect the right to mine Bitcoin, ensure Americans can self-custody their digital assets, and maintain financial privacy from government surveillance.

**5. Champion Innovation**

Republicans will pave the way for future Economic Greatness by leading the World in Emerging Industries.

*Crypto*

Republicans will end Democrats' unlawful and unAmerican Crypto crackdown and oppose the creation of a Central Bank Digital Currency. We will defend the right to mine Bitcoin, and ensure every American has the right to self-custody of their Digital Assets, and transact free from Government Surveillance and Control.

**The 2024 Republican Platform**

The differing approaches between the parties were further highlighted when Republican presidential candidate Donald Trump **spoke** at the Bitcoin 2024 Conference in Nashville, emphasizing his support for the industry. Meanwhile, Kamala Harris, the Democratic presidential candidate, declined to speak or participate at the event.





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Independent presidential candidate Robert F. Kennedy Jr. did also **speak** at the Bitcoin 2024 Conference, voicing his support for Bitcoin, further underscoring the growing political divide on this issue.

**Continue reading here**



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**Bitcoin ETF flows continue to be positive on all timeframes (from Bitcoin Munger via X)...**

Bitcoin ETF flows continue to be positive on ALL timeframes.

In hindsight, this will end up looking like the easiest trade in history. Tick tock!

| Name | 1D Flow ↓ (M USD) | 1W Flow (M USD) | 1M Flow (M USD) | YTD Flow (M USD) |
|---|---|---|---|---|
| Sum | +112.35 | +210.53 | +827.93 | +20,390.70 |
| 1) iShares Bitcoin Trust ETF | +55.43 | +171.18 | [illegible] | [illegible] |
| 2) ARK 21Shares Bitcoin ETF | +51.91 | +58.56 | -148.76 | +2,498.45 |
| 3) ProShares Bitcoin Strategy ETF | +13.55 | +33.87 | +134.54 | +246.27 |
| 4) 2x Bitcoin Strategy ETF | +6.07 | +50.66 | +153.47 | +1,897.38 |
| 5) Valkyrie Bitcoin Miners ETF | +2.32 | +2.32 | +4.30 | +39.85 |
| 6) Roundhill Bitcoin Covered Call Strategy ETF | +1.75 | +3.05 | +8.25 | +47.28 |
| 7) ProShares Ultra Bitcoin ETF | +1.43 | +5.31 | +41.14 | +424.55 |
| 8) ARK 21Shares Active Bitcoin Futures Strategy ETF | .00 | .00 | .00 | +7.01 |
| 9) ARK 21Shares Active On-Chain Bitcoin Strategy ETF | .00 | .00 | .00 | +.59 |
| 10) ARK 21Shares Active Bitcoin Ethereum Strategy ETF | .00 | .00 | .00 | -1.02 |
| 11) Proshares Bitcoin & Ether Equal Weight Strategy Etf | .00 | .00 | +2.66 | +5.48 |
| 12) Proshares Bitcoin & Ether Strategy Etf | .00 | .00 | +1.30 | +5.82 |
| 13) Bitwise Bitcoin Strategy Optimum Roll ETF | .00 | .00 | +1.10 | +5.48 |
| 14) ProShares Short Bitcoin Strategy ETF | .00 | +.28 | -14.07 | +27.57 |
| 15) Global X Blockchain & Bitcoin Strategy ETF | .00 | .00 | -.67 | -5.61 |
| 16) Coinshares Valkyrie Bitcoin Fund | .00 | .00 | .00 | +527.27 |
| 17) Grayscale Bitcoin Mini Trust BTC | .00 | +13.66 | +287.65 | +287.65 |
| 18) T-Rex 2X Long Bitcoin Daily Target ETF | .00 | +.69 | +5.66 | +8.49 |
| 19) Invesco Galaxy Bitcoin Etf | .00 | -8.84 | +4.81 | +349.61 |
| 20) WisdomTree Bitcoin Fund | .00 | .00 | +129.01 | +201.57 |
| 21) T-Rex 2X Inverse Bitcoin Daily Target ETF | .00 | +.65 | +1.55 | +1.80 |
| 22) Valkyrie Bitcoin and Ether Strategy ETF | .00 | .00 | +.05 | -.07 |
| 23) Bitwise Bitcoin And Ether Equal Weight Strategy ETF | .00 | .00 | .00 | +4.76 |
| 24) Global X Bitcoin Trend Strategy ETF | .00 | .00 | .00 | +2.63 |
| 25) Hashdex Bitcoin ETF | .00 | .00 | -2.03 | -1.79 |
| 26) Franklin Bitcoin ETF | .0 | +5.15 | -9.99 | +385.87 |
| 27) Fidelity Wise Origin Bitcoin Fund | .0 | +63.42 | -154.37 | +9,800.23 |
| 28) WisdomTree Enhanced Commodity Strategy Fund | [illegible] | -.91 | -9.03 | -19.66 |
| 29) VanEck Bitcoin Trust | .0 | .00 | -45.02 | +580.20 |
| 30) Simplify Bitcoin Strategy PLUS Income ETF | .00 | .00 | +2.27 | -11.48 |
| 31) ProShares UltraShort Bitcoin ETF | .00 | .00 | +3.96 | +19.16 |
| 32) Simplify US Equity PLUS GBTC ETF | .00 | .00 | +6.92 | +26.03 |
| 33) Schwab Crypto Thematic ETF | .00 | .00 | +3.23 | +18.24 |
| 34) WisdomTree Managed Futures Strategy Fund | .00 | .00 | +3.50 | +10.06 |
| 35) YieldMax Bitcoin Option Income Strategy ETF | .00 | .00 | +13.73 | +77.02 |
| 36) Cyber Hornet S&P 500 and Bitcoin 75/25 Strategy ETF | .00 | .00 | .00 | +1.25 |
| 37) Valkyrie Bitcoin Futures Leveraged Strategy Etf | -.83 | -1.20 | -4.06 | +37.87 |
| 38) Bitwise Bitcoin ETF | -6.47 | -19.70 | -196.16 | +2,007.73 |
| 39) Grayscale Bitcoin Trust BTC | -12.81 | -167.61 | -964.68 | -19,658.81 |

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# NOTABLE INSTITUTIONAL BUYING

## From SEC Form 13F Filings by Top Investment Managers and Concentrated Hedge Funds This Month

| Institution or Fund | Reporting Manager | Report Quarter | Stock Purchased/Sold | Ticker | Shares Owned | Value of Holdings (Average Price) | % of Portfolio | Change in Shares | Purchase Value |
|---|---|---|---|---|---|---|---|---|---|
| ShankerValleau Wealth Advisors Inc | John D Valleau Jr | 2024Q2 | ORACLE CORPORATION | ORCL | 221,799 | $31,318,018($141.20) | 15.78% | 80.68%(99,043) | $13,984,871 |
| Alken Asset Management Ltd | Alexis Tsatsaris | 2024Q2 | APOLLO GLOBAL MGMT INC | APOPRA | 20,600 | $1,358,000($65.92) | 21.41% | 20,600(New Position) | $1,358,000 |
| Oasis Management Co Ltd | Phillip M Meyer | 2024Q1 | HOLLYSYS AUTOMATION TECHNOLOGI | HOLI | 3,806,621 | $97,373,365($25.58) | 35.30% | 75.95%(1,643,181) | $42,032,570 |
| SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO | Michael Berger | 2024Q2 | ISHARES GOLD TR MICRO UNDIVIDE | IAUM | 1,487,543 | $34,510,998($23.20) | 100.00% | 1,487,543(New Position) | $34,510,998 |
| Kinnevik AB (publ) | Samuel Sjostrom | 2024Q2 | RECURSION PHARMACEUTICALS INC | RXRX | 11,905,668 | $89,292,510($7.50) | 100.00% | 14.42%(1,500,000) | $11,250,000 |
| SYQUANT CAPITAL SAS | Bruno DUCAMP | 2024Q2 | HOLLYSYS AUTOMATION TECHNOLOGI | HOLI | 291,963 | $6,318,000($21.64) | 63.62% | 126.47%(163,042) | $3,528,185 |
| SYQUANT CAPITAL SAS | Bruno DUCAMP | 2024Q2 | HIBBETT INC | HIBB | 35,332 | $3,081,000($87.20) | 31.02% | 35,332(New Position) | $3,081,000 |
| Svenska Handelsbanken AB (publ) | Anna Lindkvist | 2024Q2 | APPLIED MATERIALS INC | AMAT | 170,000 | $40,533,000($238.43) | 11.28% | 170,000(New Position) | $40,533,000 |
| Svenska Handelsbanken AB (publ) | Anna Lindkvist | 2024Q2 | BROADCOM INC | AVGO | 251,750 | $40,325,000($160.18) | 11.23% | 251,750(New Position) | $40,325,000 |
| Svenska Handelsbanken AB (publ) | Anna Lindkvist | 2024Q2 | NVIDIA CORP | NVDA | 317,209 | $40,013,000($126.14) | 11.14% | 317,209(New Position) | $40,013,000 |
| Ridgemont Partners Management LLC | Edward A. Balogh Jr. | 2024Q2 | KIMBELL ROYALTY PARTNERS LP UN | KRP | 5,890,697 | $96,371,803($16.36) | 72.60% | 5,890,697(New Position) | $96,371,803 |
| Ridgemont Partners Management LLC | Edward A. Balogh Jr. | 2024Q2 | FORWARD AIR CORPORATION | FWRD | 1,910,615 | $36,378,110($19.04) | 27.40% | 172.71%(1,210,006) | $23,038,514 |
| Franchise Capital Ltd | Shihong Wang | 2024Q2 | PDD HOLDINGS INC. AMERICAN DEP | PDD | 1,138,221 | $151,326,482($132.95) | 36.60% | 26.13%(235,795) | $31,348,812 |
| Systrade AG | Helmut A. Friedrich | 2024Q2 | UBS GROUP AG | UBS | 100,000 | $2,935,950($29.36) | 5.02% | 100,000(New Position) | $2,935,950 |
| Eldred Rock Partners LLC | John Derrick | 2024Q2 | VONTIER CORP COM | VNT | 382,548 | $14,613,328($38.20) | 6.11% | 382,548(New Position) | $14,613,328 |
| Ace Management Global Ltd | Anna Gabriella Chagas Antici | 2024Q1 | MASIMO CORP | MASI | 1,169,352 | $171,719,341($146.85) | 63.47% | 1,169,352(New Position) | $171,719,341 |
| Ace Management Global Ltd | Anna Gabriella Chagas Antici | 2024Q1 | DANAHER CORP | DHR | 168,488 | $42,074,823($249.72) | 15.55% | 168,488(New Position) | $42,074,823 |
| Palliser Capital (UK) Ltd | Jeremy J White | 2024Q2 | RIO TINTO PLC ADS | RIO | 499,675 | $32,943,573($65.93) | 33.04% | 690.63%(436,475) | $28,776,797 |
| Palliser Capital (UK) Ltd | Jeremy J White | 2024Q2 | ENDEAVOR GROUP HLDGS INC | EDR | 374,883 | $10,133,087($27.03) | 10.16% | 374,883(New Position) | $10,133,087 |
| LEE JOHNSON CAPITAL MANAGEMENT LLC | Dane Petty | 2024Q2 | GLOBAL X URANIUM ETF | URA | 370,618 | $10,729,391($28.95) | 5.48% | 370,618(New Position) | $10,729,391 |
| Samson Rock Capital LLP | Trishawna Simpson | 2024Q2 | HESS CORPORATION | HES | 695,413 | $102,587,325($147.52) | 76.10% | 32.46%(170,413) | $25,139,179 |
| Samson Rock Capital LLP | Trishawna Simpson | 2024Q2 | HASHICORP INC | HCP | 550,000 | $18,529,500($33.69) | 13.75% | 550,000(New Position) | $18,529,500 |
| Samson Rock Capital LLP | Trishawna Simpson | 2024Q2 | SQUARESPACE INC | SQSP | 236,513 | $10,319,062($43.63) | 7.65% | 236,513(New Position) | $10,319,062 |
| Clio Asset Management LLC | James Aldige | 2024Q2 | AUTOZONE INC | AZO | 4,313 | $12,784,163($2,964.10) | 9.98% | 84.32%(1,973) | $5,845,205 |
| HAMILTON LANE ADVISORS LLC | Daniel Connaughton | 2024Q2 | TOAST INC | TOST | 757,365 | $19,517,296($25.77) | 16.00% | 757,365(New Position) | 19,517,296.00 $ |
| Equinox Partners Investment Management LLC | Denise Alejo | 2024Q2 | VIZSLA SILVER CORP COM | VZLA | 5,372,000 | $9,503,106($1.77) | 6.00% | 5,372,000(New Position) | 9,503,106.00 $ |
| Equinox Partners Investment Management LLC | Denise Alejo | 2024Q2 | GRAN TIERRA ENERGY INC | GTE | 799,946 | $7,735,478($9.67) | 5.00% | 799,946(New Position) | 7,735,478.00 $ |
| Kanen Wealth Management LLC | Steve Solano | 2024Q1 | THE ONE GROUP HOSPITALITY INC | STKS | 2,495,250 | $13,898,543($5.57) | 62.66% | 2,495,250(New Position) | $13,898,543 |
| Kanen Wealth Management LLC | Steve Solano | 2024Q1 | CAESARS ENTMT INC | CZR | 93,138 | $4,073,856($43.74) | 18.37% | 93,138(New Position) | $4,073,856 |
| Kanen Wealth Management LLC | Steve Solano | 2024Q1 | INSPIRED ENTMT INC | INSE | 151,330 | $1,492,114($9.86) | 6.73% | 151,330(New Position) | $1,492,114 |
| Kanen Wealth Management LLC | Steve Solano | 2024Q1 | EGAIN CORPORATION | EGAN | 192,942 | $1,244,476($6.45) | 5.61% | 192,942(New Position) | $1,244,476 |
| Spear Holdings RSC Ltd | Jeff Hendrickson | 2024Q2 | MCDONALDS CORP | MCD | 157,300 | $40,086,332($254.84) | 28.30% | 157,300(New Position) | $40,086,332 |
| Spear Holdings RSC Ltd | Jeff Hendrickson | 2024Q2 | GE VERNOVA LLC COM | GEV | 171,330 | $29,384,807($171.51) | 20.74% | 171.95%(108,330) | $18,579,678 |



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# NOTABLE INSTITUTIONAL BUYING

## From SEC Form 13F Filings by Top Investment Managers and Concentrated Hedge Funds This Month

| Institution or Fund | Reporting Manager | Report Quarter | Stock Purchased/Sold | Ticker | Shares Owned | Value of Holdings (Average Price) | % of Portfolio | Change in Shares | Purchase Value |
|---|---|---|---|---|---|---|---|---|---|
| PBCay One RSC Ltd | Jeff Hendrickson | 2024Q2 | ISHARES RUSSELL 2000 ETF | IWM | 331,060 | $67,168,763($202.89) | 36.48% | 331,060(New Position) | $67,168,763 |
| PBCay One RSC Ltd | Jeff Hendrickson | 2024Q2 | TESLA INC | TSLA | 89,000 | $17,611,320($197.88) | 9.57% | 89,000(New Position) | $17,611,320 |
| STEEL PARTNERS HOLDINGS L.P. | Ryan O'Herrin | 2024Q2 | DMC GLOBAL INC | BOOM | 1,973,039 | $28,451,222($14.42) | 36.03% | 610.49%(1,695,336) | $24,446,745 |
| STEEL PARTNERS HOLDINGS L.P. | Ryan O'Herrin | 2024Q2 | STEEL CONNECT INC | STCN | 3,061,313 | $39,307,259($12.84) | 49.78% | 51.72%(1,043,624) | $13,400,132 |
| STEEL PARTNERS HOLDINGS L.P. | Ryan O'Herrin | 2024Q2 | CONTEXTLOGIC INC | LOGC | 799,713 | $4,566,361($5.71) | 5.78% | 981.80%(725,789) | $4,144,255 |
| Longitude (Cayman) Ltd | Laurent Fresard | 2024Q2 | ISHARES BITCOIN TR SHS | IBIT | 104,000 | $3,550,560($34.14) | 5.59% | 104,000(New Position) | $3,550,560 |
| HILLMAN CO | Jeffrey A. Robinson | 2024Q2 | CRH PLC SHS | CRH | 191,933 | $14,391,136($74.98) | 6.90% | 191,933(New Position) | $14,391,136 |
| Silchester International Investors LLP | Timothy J. Linehan | 2024Q2 | NUTRIEN LTD COM SHS | NTR | 4,041,167 | $205,735,812($50.91) | 36.28% | 211.59%(2,744,213) | $139,707,883 |
| BlueDrive Global Investors LLP | James Minshull | 2024Q2 | LAMB WESTON HLDGS INC | LW | 175,420 | $14,749,314($84.08) | 22.31% | 61.88%(67,055) | $5,637,985 |
| Lind Value II ApS | Henrik Lind | 2024Q2 | AVNET INC | AVT | 1,211,760 | $62,393,522($51.49) | 24.88% | 1,211,760(New Position) | $62,393,522 |
| Lind Value II ApS | Henrik Lind | 2024Q2 | YUM CHINA HLDGS INC | YUMC | 1,305,000 | $40,246,200($30.84) | 16.05% | 1,305,000(New Position) | $40,246,200 |



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# NOTABLE INSIDER BUYING

## From SEC Form 4 Filings by Top Executives and 10% Owners This Month

| Stock Purchased/Sold | Ticker | Total Buy Value | Total Sell Value | Total Buy Filings | Total Sell Filings |
|---|---|---|---|---|---|
| Coupang Inc. | CPNG | $39,345,831 | $4,898,695 | 3 | 3 |
| PBF Energy Inc. | PBF | $30,733,103 | $0 | 4 | 0 |
| TALOS ENERGY INC. | TALO | $23,302,525 | $0 | 4 | 0 |
| Red Rock Resorts Inc. | RRR | $14,008,427 | $0 | 2 | 0 |
| ZoomInfo Technologies Inc. | ZI | $12,736,650 | $0 | 1 | 0 |
| AMERICAN PUBLIC EDUCATION INC | APEI | $12,541,106 | $0 | 6 | 0 |
| Nerdy Inc. | NRDY | $11,969,205 | $43,268 | 2 | 1 |
| Mobileye Global Inc. | MBLY | $10,434,093 | $0 | 1 | 0 |
| AA Mission Acquisition Corp. | AAM | $7,590,000 | $0 | 1 | 0 |
| GOLUB CAPITAL BDC Inc. | GBDC | $4,770,000 | $0 | 8 | 0 |
| Inspirato Inc | ISPO | $4,579,980 | $0 | 1 | 0 |
| BILL Holdings Inc. | BILL | $3,138,831 | $0 | 2 | 0 |
| GEO GROUP INC | GEO | $3,071,000 | $0 | 1 | 0 |
| Sunrise Realty Trust Inc. | SUNS | $2,573,551 | $0 | 9 | 0 |
| MGM Resorts International | MGM | $2,326,444 | $0 | 2 | 0 |
| MAXLINEAR INC | MXL | $1,401,593 | $0 | 1 | 0 |
| Elanco Animal Health Inc | ELAN | $1,300,610 | $0 | 1 | 0 |
| Pebblebrook Hotel Trust | PEB | $1,158,020 | $0 | 2 | 0 |
| Envista Holdings Corp | NVST | $906,708 | $0 | 2 | 0 |
| Orion S.A. | OEC | $799,021 | $0 | 3 | 0 |
| Ryman Hospitality Properties Inc. | RHP | $789,769 | $0 | 1 | 0 |
| ROYAL CARIBBEAN CRUISES LTD | RCL | $749,000 | $0 | 1 | 0 |
| WEBTOON Entertainment Inc. | WBTN | $713,549 | $0 | 2 | 0 |
| Allegion plc | ALLE | $674,925 | $0 | 1 | 0 |
| Arcosa Inc. | ACA | $994,909 | $335,120 | 1 | 1 |
| MultiPlan Corp | MPLN | $530,755 | $0 | 2 | 0 |
| OneWater Marine Inc. | ONEW | $520,565 | $0 | 3 | 0 |
| Inhibrx Biosciences Inc. | INBX | $518,282 | $0 | 1 | 0 |
| TREACE MEDICAL CONCEPTS INC. | TMCI | $510,315 | $0 | 1 | 0 |
| Bausch & Lomb Corp | BLCO | $505,067 | $0 | 1 | 0 |
| Lyft Inc. | LYFT | $501,025 | $0 | 1 | 0 |
| PIMCO Flexible Real Estate Income Fund | REFLX | $500,000 | $0 | 1 | 0 |
| CDW Corp | CDW | $486,829 | $0 | 2 | 0 |
| Custom Truck One Source Inc. | CTOS | $435,731 | $0 | 2 | 0 |
| NCR Voyix Corp | VYX | $424,068 | $0 | 3 | 0 |
| SHENANDOAH TELECOMMUNICATIONS CO | SHEN | $422,278 | $0 | 3 | 0 |
| BEACON ROOFING SUPPLY INC | BECN | $411,450 | $0 | 1 | 0 |
| GrowGeneration Corp. | GRWG | $396,373 | $0 | 2 | 0 |
| FRANKLIN RESOURCES INC | BEN | $396,021 | $0 | 1 | 0 |
| GOODYEAR TIRE & RUBBER CO | GT | $383,394 | $0 | 2 | 0 |
| TELOS CORP | TLS | $379,159 | $0 | 1 | 0 |
| AMBAC FINANCIAL GROUP INC | AMBC | $365,694 | $0 | 3 | 0 |
| Blue Owl Capital Corp III | OBDE | $358,500 | $0 | 1 | 0 |
| Solo Brands Inc. | DTC | $324,804 | $0 | 1 | 0 |
| Energy Transfer LP | ET | $313,600 | $0 | 1 | 0 |



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# NOTABLE INSIDER BUYING

## From SEC Form 4 Filings by Top Executives and 10% Owners This Month

| Stock Purchased/Sold | Ticker | Total Buy Value | Total Sell Value | Total Buy Filings | Total Sell Filings |
|---|---|---|---|---|---|
| eHealth Inc. | EHTH | $286,852 | $0 | 2 | 0 |
| BLACKSTONE MORTGAGE TRUST INC. | BXMT | $274,634 | $0 | 1 | 0 |
| Yum China Holdings Inc. | YUMC | $256,714 | $0 | 2 | 0 |
| LINDBLAD EXPEDITIONS HOLDINGS INC. | LIND | $255,288 | $0 | 1 | 0 |
| INTEL CORP | INTC | $251,946 | $0 | 1 | 0 |
| CVRx Inc. | CVRX | $250,767 | $0 | 1 | 0 |
| TriplePoint Venture Growth BDC Corp. | TPVG | $249,987 | $0 | 1 | 0 |
| Leidos Holdings Inc. | LDOS | $248,305 | $0 | 1 | 0 |
| LIGAND PHARMACEUTICALS INC | LGND | $243,481 | $0 | 1 | 0 |
| MSP Recovery Inc. | LIFW | $232,685 | $0 | 6 | 0 |
| FORUM ENERGY TECHNOLOGIES INC. | FET | $213,570 | $0 | 1 | 0 |
| Ecovyst Inc. | ECVT | $212,721 | $0 | 4 | 0 |
| Quanterix Corp | QTRX | $207,100 | $0 | 1 | 0 |
| Varex Imaging Corp | VREX | $207,097 | $0 | 2 | 0 |
| MYR GROUP INC. | MYRG | $199,010 | $0 | 1 | 0 |
| BIOXYTRAN INC | BIXT | $197,522 | $0 | 1 | 0 |
| Upland Software Inc. | UPLD | $196,935 | $0 | 1 | 0 |
| Community Healthcare Trust Inc | CHCT | $194,800 | $0 | 1 | 0 |
| NB Bancorp Inc. | NBBK | $189,258 | $0 | 2 | 0 |
| Medalist Diversified REIT Inc. | MDRR | $188,237 | $0 | 2 | 0 |
| Vimeo Inc. | VMEO | $169,809 | $0 | 2 | 0 |
| Global Self Storage Inc. | SELF | $165,842 | $0 | 5 | 0 |
| SUPERIOR GROUP OF COMPANIES INC. | SGC | $160,527 | $0 | 2 | 0 |
| GLOBAL PARTNERS LP | GLP | $153,149 | $0 | 1 | 0 |
| Delek Logistics Partners LP | DKL | $151,422 | $0 | 1 | 0 |
| Blue Owl Capital Corp | OBDC | $146,600 | $0 | 1 | 0 |
| FIRST INTERSTATE BANCSYSTEM INC | FIBK | $347,718 | $217,613 | 1 | 1 |
| Compass Diversified Holdings | CODI | $126,135 | $0 | 1 | 0 |
| ENTERPRISE PRODUCTS PARTNERS L.P. | EPD | $122,681 | $0 | 1 | 0 |
| Customers Bancorp Inc. | CUBI | $113,833 | $0 | 1 | 0 |
| Matador Resources Co | MTDR | $111,920 | $0 | 1 | 0 |
| SR Bancorp Inc. | SRBK | $111,335 | $0 | 1 | 0 |
| Trinseo PLC | TSE | $102,800 | $0 | 1 | 0 |
| AMARIN CORP PLC | AMRN | $102,400 | $0 | 1 | 0 |
| Runway Growth Finance Corp. | RWAY | $101,250 | $0 | 2 | 0 |
| Vivakor Inc. | VIVK | $100,706 | $0 | 1 | 0 |
| First Northwest Bancorp | FNWB | $100,189 | $0 | 1 | 0 |
| Delek US Holdings Inc. | DK | $115,393 | $15,255 | 1 | 1 |
| Greenwich LifeSciences Inc. | GLSI | $100,110 | $0 | 2 | 0 |
| Pacira BioSciences Inc. | PCRX | $99,994 | $0 | 1 | 0 |
| BEYOND INC. | BYON | $99,992 | $0 | 1 | 0 |
| Butterfly Network Inc. | BFLY | $98,519 | $0 | 1 | 0 |
| Tourmaline Bio Inc. | TRML | $98,416 | $0 | 2 | 0 |
| O-I Glass Inc. | OI | $97,991 | $0 | 1 | 0 |
| Pulmonx Corp | LUNG | $97,436 | $0 | 1 | 0 |



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# NOTABLE INSIDER BUYING

## From SEC Form 4 Filings by Top Executives and 10% Owners This Month

| Stock Purchased/Sold | Ticker | Total Buy Value | Total Sell Value | Total Buy Filings | Total Sell Filings |
|---|---|---|---|---|---|
| DIEBOLD NIXDORF Inc | DBD | $95,264 | $0 | 2 | 0 |
| Vital Energy Inc. | VTLE | $94,625 | $0 | 1 | 0 |
| CHOICEONE FINANCIAL SERVICES INC | COFS | $94,075 | $0 | 3 | 0 |
| GABELLI DIVIDEND & INCOME TRUST | GDV | $90,989 | $0 | 2 | 0 |
| Quantum-Si Inc | QSI | $86,348 | $0 | 3 | 0 |
| NewAmsterdam Pharma Co N.V. | NAMS | $81,350 | $0 | 1 | 0 |
| NewtekOne Inc. | NEWT | $80,627 | $0 | 1 | 0 |
| HARTE HANKS INC | HHS | $79,890 | $0 | 2 | 0 |
| New Mountain Finance Corp | NMFC | $76,158 | $0 | 1 | 0 |
| Eos Energy Enterprises Inc. | EOSE | $75,504 | $0 | 1 | 0 |
| Apple Hospitality REIT Inc. | APLE | $70,225 | $0 | 1 | 0 |
| ISABELLA BANK Corp | ISBA | $69,755 | $0 | 4 | 0 |
| Westlake Chemical Partners LP | WLKP | $66,933 | $0 | 2 | 0 |
| RETRACTABLE TECHNOLOGIES INC | RVP | $64,995 | $0 | 6 | 0 |
| Gain Therapeutics Inc. | GANX | $64,484 | $0 | 2 | 0 |
| Granite Ridge Resources Inc. | GRNT | $64,250 | $0 | 2 | 0 |
| CARRIAGE SERVICES INC | CSV | $58,880 | $0 | 1 | 0 |
| CION Investment Corp | CION | $58,036 | $0 | 4 | 0 |
| Beyond Air Inc. | XAIR | $56,980 | $0 | 2 | 0 |
| Gabelli Healthcare & WellnessRx Trust | GRX | $53,781 | $0 | 1 | 0 |
| Third Coast Bancshares Inc. | TCBX | $52,500 | $0 | 1 | 0 |
| ROYCE SMALL-CAP TRUST INC. | RVT | $51,680 | $0 | 1 | 0 |
| NORWOOD FINANCIAL CORP | NWFL | $51,665 | $0 | 4 | 0 |
| ROYCE MICRO-CAP TRUST INC. | RMT | $51,624 | $0 | 1 | 0 |
| Bridgeline Digital Inc. | BLIN | $51,000 | $0 | 1 | 0 |
| Imunon Inc. | IMNN | $50,250 | $0 | 2 | 0 |
| RENN Fund Inc. | RCG | $50,181 | $0 | 23 | 0 |
| Flat Rock Opportunity Fund | FROPX | $50,000 | $0 | 1 | 0 |
| Felicitas Private Markets Fund | FPMYX | $49,988 | $0 | 1 | 0 |
| Trinity Capital Inc. | TRIN | $49,543 | $0 | 1 | 0 |
| WW INTERNATIONAL INC. | WW | $48,555 | $0 | 1 | 0 |
| Epsilon Energy Ltd. | EPSN | $48,254 | $0 | 1 | 0 |
| Energy Recovery Inc. | ERII | $48,009 | $0 | 1 | 0 |
| RAPID MICRO BIOSYSTEMS INC. | RPID | $46,200 | $0 | 2 | 0 |
| SURO CAPITAL CORP. | SSSS | $46,080 | $0 | 1 | 0 |
| Alset Inc. | AEI | $43,760 | $0 | 3 | 0 |
| Beauty Health Co | SKIN | $43,686 | $0 | 1 | 0 |
| EYENOVIA INC. | EYEN | $42,577 | $0 | 2 | 0 |
| FOSTER L B CO | FSTR | $41,975 | $0 | 1 | 0 |
| Heritage Insurance Holdings Inc. | HRTG | $107,508 | $66,599 | 2 | 1 |
| CITIZENS INC. | CIA | $40,652 | $0 | 4 | 0 |
| HireQuest Inc. | HQI | $38,685 | $0 | 1 | 0 |
| NXP Semiconductors N.V. | NXPI | $37,600 | $0 | 1 | 0 |
| Meridian Corp | MRBK | $37,420 | $0 | 2 | 0 |
| PRECISION OPTICS CORPORATION INC. | POCI | $34,983 | $0 | 2 | 0 |



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# NOTABLE INSIDER BUYING

## From SEC Form 4 Filings by Top Executives and 10% Owners This Month

| Stock Purchased/Sold | Ticker | Total Buy Value | Total Sell Value | Total Buy Filings | Total Sell Filings |
|---|---|---|---|---|---|
| *Earth Science Tech Inc.* | *ETST* | *$34,349* | *$0* | *2* | *0* |
| *Quest Resource Holding Corp* | *QRHC* | *$32,232* | *$0* | *2* | *0* |
| *Farmers & Merchants Bancshares Inc.* | *FMFG* | *$32,079* | *$0* | *3* | *0* |
| *Quince Therapeutics Inc.* | *QNCX* | *$31,452* | *$0* | *1* | *0* |
| *Nutex Health Inc.* | *NUTX* | *$28,970* | *$0* | *1* | *0* |
| *Orion Group Holdings Inc* | *ORN* | *$25,138* | *$0* | *1* | *0* |
| *NEXGEL INC.* | *NXGL* | *$25,000* | *$0* | *1* | *0* |
| *MainStreet Bancshares Inc.* | *MNSB* | *$24,994* | *$0* | *1* | *0* |
| *Nuveen AMT-Free Quality Municipal Income Fund* | *NEA* | *$24,959* | *$0* | *1* | *0* |
| *DarioHealth Corp.* | *DRIO* | *$22,780* | *$0* | *3* | *0* |
| *BASSETT FURNITURE INDUSTRIES INC* | *BSET* | *$21,656* | *$0* | *1* | *0* |
| *Embassy Bancorp Inc.* | *EMYB* | *$21,528* | *$0* | *2* | *0* |
| *Broad Street Realty Inc.* | *BRST* | *$21,217* | *$0* | *5* | *0* |
| *AUBURN NATIONAL BANCORPORATION INC* | *AUBN* | *$21,141* | *$0* | *2* | *0* |
| *MRC GLOBAL INC.* | *MRC* | *$240,600* | *$219,487* | *1* | *1* |



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